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Title:
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U.S. CONG. SENATE. SUBCOMMITTEE ON SURPLUS PROPERTY OF THE COMMITTEE ON MILITARY AFFAIRS.

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BEFORE THE

SUBCOMMITTEE ON SURPLUS PROPERTY OF THE COMMITTEE ON MILITARY AFFAIRS

SPECIAL COMMITTEE TO STUDY AND SURVEY PROBLEMS OF SMALL BUSINESS ENTERPRISES

INDUSTRIAL REORGANIZATION SUBCOMMITTEE OF THE SPECIAL COMMITTEE ON POSTWAR ECONOMIC POLICY AND PLANNING

UNITED STATES SENATE

SEVENTY-NINTH CONGRESS
FIRST SESSION

ON THE

ALUMINUM REPORTS OF THE SURPLUS PROPERTY ADMINISTRATION, ATTORNEY GENERAL OF THE UNITED STATES, AND SURPLUS WAR PROPERTY SUBCOMMITTEE OF THE SPECIAL COMMITTEE TO STUDY AND SURVEY PROBLEMS OF SMALL BUSINESS ENTERPRISES

PARTS 1, 2, 3, 4, and 5

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ALUMINUM PLANT DISPOSAL

MONDAY, OCTOBER 15, 1945

JOINT HEARING OF THE SUBCOMMITTEE ON SURPLUS PROPERTY DISPOSAL OF THE COMMITTEE ON MILITARY AFFAIRS, THE SPECIAL COMMITTEE TO STUDY AND SURVEY PROBLEMS OF SMALL BUSINESS ENTERPRISES, AND THE INDUSTRIAL REORGANIZATION SUBCOMMITTEE OF THE SPECIAL COMMITTEE ON POSTWAR ECONOMIC POLICY AND PLANNING

UNITED STATES SENATE,
Washington, D. C.

The committee met, pursuant to call, at 10:30 a. m., in the caucus room, Senate Office Building, Senator Joseph C. O'Mahoney (chairman of the Subcommittee on Surplus Property Disposal) presiding.

Present: Senators O'Mahoney (chairman), Murray, Hill, Wherry, Austin, and Revercomb.

Also present: Senators Hayden, McClellan, Maybank, Mitchell, and Robertson; Congressmen Savage, Horan, and Angell; Kurt Borchardt, counsel, Surplus Property Subcommittee of the Committee on Military Affairs; Dewey Anderson, executive secretary; C. E. Childs, consultant; and Thomas J. McBreen, Jr., chief of information, Senate Small Business Committee.

Appearances on behalf of governmental agencies:

James P. McGranery, the Assistant to the Attorney General.

Irving Lipkowitz, Antitrust Division, Department of Justice.

W. Stuart Symington, Surplus Property Administrator.

H. B. Cox, general counsel, Surplus Property Administration.

N. H. Bell, Director, Plants Division, Surplus Property Administration.

Donald McCormick, Deputy Administrator, Industrial Property, Surplus Property Administration.

Samuel Moment, Surplus Property Administration.

Col. John M. Redding, Surplus Property Administration.

Sam H. Husbands, member, Board of Directors, Reconstruction Finance Corporation.

G. F. Buskie, Executive Director, Office of Surplus Property, Reconstruction Finance Corporation.

Fred E. Berquist, Acting Deputy Director, Office of Surplus Property, Reconstruction Finance Corporation.

Irving Gumbel, Office of Surplus Property, Reconstruction Finance Corporation.

Lt. H. P. Caulfield, Jr., United States Naval Reserve, Property Disposition Branch, Office of Assistant Secretary of Navy.

Brig. Gen. Edgar P. Sorensen, United States Army, Office of the Under Secretary of War.

Lt. Col. Owen C. Holleran, Air Corps, Office of the Under Secretary of War.

Robert L. Sebastian, technical adviser, War Production Board.

J. Morman Romoser, Chief, Facilities Branch, Aluminum and Magnesium Division, War Production Board.

A. H. Galbraith, War Production Board.

A. B. Menefee, War Production Board.

Walton Seymour, Director of Power Utilization, Tennessee Valley Authority.

W. K. McPherson, Chief, Industrial Economics Division, Tennessee Valley Authority.

Robert B. McCormick, Metals Division, United States Tariff Commission.

John C. Russell, Metals Division, United States Tariff Commission.

Arthur Goldschmidt, Director, Division of Power, Department of the Interior.

Douglas G. Wright, Administrator, Southwestern Power Administration, Department of the Interior.

Robert M. Weidenhammer, Metals and Minerals Unit, Department of Commerce.

J. P. Albey, Bonneville Power Commission.

E. Robert de Luccia, Chief, Bureau of Power, Federal Power Commission.

Alex. Daspit, Office of War Mobilization and Reconversion.

Harrison F. Houghton, economist, Office of Reports, Smaller War Plants Corporation.

W. D. McFarlane, Surplus Property Division, Smaller War Plants Corporation.

Donald D. Kennedy, Chief, Commodities Division, Department of State.

Appearances on behalf of industry:

I. W. Wilson, vice president, Aluminum Co. of America.

Leon E. Hickman, of Smith, Buchanan & Ingersoll, Pittsburgh, Pa., counsel for Alcoa.

Marion M. Caskie, vice president, Reynolds Metals Co., 200 Southern Building, Washington, D. C.

J. O. Gallagher, president, Columbia Metals Corp., Seattle, Wash.

E. N. Rousseau, Washington representative, Olin Industries, Inc.

Lawrence A. Harvey, executive vice president, Harvey Machine Co., Los Angeles 3, Calif.

Francis C. Cary, Hybinette & Cary, Wilmington, Del.

Ernest E. Debs, member, California State Legislature and chairman of State aviation committee, Sacramento, Calif.

Statement of Senator O'Mahoney

Senator O'Mahoney. Now it has been the experience of the chairman in the past hearings that little advantage is obtained when the presentation of a point of view depends solely upon the uninterrupted testimony of a witness, or the reading of a paper. It is to be hoped that we can develop this as a round-table discussion, and I hope that witnesses will be willing to be interrupted, not only by members of the committees, but also by informed members and representatives of industry and representatives of Government who are gathered around the table, so that we may get the very best possible results out of the presentation of this problem.

Last night I wrote an opening statement and I want those present to understand that the chairman is subject to the rule which I have just announced. I have no objection to being interrupted at any time.

SURPLUS PROPERTY ACT A MANDATE

In passing the Surplus Property Act of 1944, Congress laid a mandate on the Surplus Property Administrator to dispose of the property no longer needed in the common defense in such manner as—

> to give maximum aid in the reestablishment of a peacetime economy of free, independent enterprise * * * to stimulate full employment * * * discourage monopolistic practices * * * strengthen and preserve the competitive position of small business * * * and promote production and utilization of the productive capacity and the natural * * * resources of the country.

These words of the statute itself leave no doubt of what the legislative intent was. This intent, however, was made doubly clear in section 19 of the act which provides not only that the Surplus Property Administrator should make a report to Congress with respect to all plants costing $5,000,000 or more before disposing of them but that a disposal plan shall be laid before the Congress "consistent with the policies and objectives set forth in this act."

Specific as this language is, it is not the only recent declaration of Congress on the subject. The War Mobilization and Reconversion Act of 1944 is equally definite. In section 205, this law directs the Attorney General—

> to make surveys for the purpose of determining any factors which may tend to eliminate competition, create or strengthen monopolies, injure small business, or otherwise promote undue concentration of economic power in the course of war mobilization and during the period of transition from war to peace and thereafter.

Thus by laws which are as yet scarcely 1 year old, the Congress has left no loophole for misunderstanding its purposes. It has instructed the executive arm of the Government to use the powers of government to help bring about reestablishment of a competitive economy in which it will be possible for "new independent enterprise" to develop. If new independent enterprise is not permitted to develop in the United States of America it is difficult to see where else in the world it can develop and can be protected, because the obvious trend in Russia, in Britain, in Europe, and everywhere except where the United States is endeavoring to carry out the policy of freedom in competition, it is becoming more and more difficult for the individual or small organization to compete with either cartels upon the one hand, or authoritarian government upon the other.

In compliance with the laws to which I have referred, the Surplus Property Administrator and the Attorney General have transmitted to Congress their respective reports on the aluminum industry and both of these documents have been referred to the Surplus Property Subcommittee of the Senate Committee on Military Affairs. This hearing is being held under the sponsorship of this subcommittee and jointly with the Select Committee on Small Business and the Industrial Reorganization Subcommittee of the Select Committee on Postwar Economic Policy and Planning. All three of these committees

participated in preparing both the War Mobilization and Reconversion Act and the Surplus Property Act. It is appropriate that they, therefore, should now examine the two reports which have been transmitted to Congress under these acts and that they should afford a full opportunity to the representatives of industry, labor, and Government publicly to discuss the problems raised by the two reports.

DISPOSAL OF ALUMINUM PLANTS COULD WELL SERVE AS PATTERN FOR DISPOSAL OF ALL GOVERNMENT FACILITIES

The disposal of Government-owned aluminum plants may well be the pattern for the disposal of all the facilities constructed by the Government for the purposes of war. On what is done with respect to these facilities may depend the success or failure of the clearly announced congressional policy for the preservation of free enterprise. It would be dangerous to minimize the task. It is not too much to say that both the economic and the political future of this country will be deeply affected by what is done with these Government-owned facilities.

Their output enabled us to produce the equipment without which the United Nations could not have prevailed in the war. Because of them we were able to manufacture almost 300,000 military planes, more than 70,000 warships, 315,000 pieces of artillery and mortars, 86,000 tanks, 64,000 land ships, and unimaginable amounts of ammunition and other material and equipment—all of a total value of $186,000,000,000.

The industrial achievement of the United States between July 1, 1940, and July 31, 1945, was made possible by the investment of approximately $15,000,000,000 of public funds in the construction and expansion of industrial plants and by the exercise of Government controls over the entire economy, controls of such a degree as never before were attempted in this country.

Mr. J. A. Krug, Chairman of the War Production Board, in his report only last week on wartime achievements and the reconversion outlook, declared:

> To an extent unprecedented in our history even in previous wars national economy has been guided by Washington. Every industrial plant built in the United States in these past few years has had to have Government authorization. Scarcely a ton of steel, or copper, or aluminum could be fabricated without Government approval.

These controls have now, for the most part, been scrapped. The principle on which reconversion has proceeded as been te abandonment of regimentation by government. Freedom of enterprise is being restored with such speed that more than 200 Government orders and regulations which were in effect on VE-day were canceled before VJ-day and only a few contorls of limited scope and purpose now remain.

But there still is with us the gigantic national debt, the debt which was incurred to make war production possible. It has already exceeded $260,000,000,000 and is still climbing, but the national income is falling off because production is falling off. The national debt is a mortgage on future production and therefore it becomes a primary postwar objective to maintain production. It is this simple fact that

makes disposal policy with respect to these plants so immeasurably important. If they are to be regarded as war casualities and placed under padlock, we shall inevitably relapse into the unsound, unstable condition in which the war found us.

It is unthinkable that the people who were able to exceed even the most optimitic goals in producing for war will be unable now to produce for peace and do it on an unprecedented scale in a free economy. A peacetime civilian economy has use for rubber, for steel, for aluminum, for petroleum in quantities greater than were ever before produced save in war. Our task is to build that civilian economy on a scale of living higher than any ever before attained.

Every man who is discharged from the fighting forces is a man to be absorbed in the civilian economy. In the Army or the Navy he is fed and clothed, as well as armed, by the Government. Discharged, he will feed and clothe himself provided we know how to convert the productive mechanism from war to peace and keep it running. The demobilized millions will be added to the millions formerly employed on war contracts and unless we make the maximum use of these plants a crisis can easily develop; indeed, a crisis will develop.

Between 1939 and 1944, the number of persons employed in manufacturing increased in the United States by almost 6,500.000 persons. During the war as many as 2,000,000 learned how to process the light metals. The aluminum industry was expanded to seven times its prewar capacity, but even with this expansion, 90 percent of production, according to the report before us, is under the management of the Aluminum Co. of America. The contracts with Alcoa for operating primary plants have been terminated, effective the 31st of this month, and Alcoa, we understand, is not interested in continuing operations on a temporary short-time basis. It becomes obvious, therefore, that prompt action is necessary. If the plants remain idle, the working forces will disintegrate and the country will be deprived of the benefits of the production and employment they are potentially capable of providing. There is reason to believe, from hearings of the Senate Small Business Committee and from industry surveys, that within a comparatively few years, as light metals become more and more used in industry, the present capacity will have to be enlarged to supply the demand, and there will be a greater demand for domestic alumina made from domestic clays and ores. In the immediate reconversion and postwar period, however, it is estimated that only part of the present capacity can be kept in operation.

GOVERNMENT'S INVESTMENT IN ALUMINUM PLANTS EXCEEDS $700,000,000

More than half of the present production facilities are owned by the Government. The Government owns 52 plants for producing and fabricating aluminum, in addition to facilities in a number of private plants comprising an investment of well over $700,000,000. This was an investment of Government money. The significance of the Government investment is emphasized by the fact that of all that was put into expansion and construction, only $34,000,000 was furnished by loans. The Government's investment exceeded $700,000,000.

Plants for producing alumina from bauxite are located in Arkansas and Louisiana. Sintering facilities are in Alabama, Arkansas, Loui-

siana, and Illinois. Experimental plants for making alumina from clay and other domestic ores are located in Oregon, Utah, Wyoming, and South Carolina. Primary aluminum plants are in Washington, Oregon, California, Arkansas, New Jersey, and New York. Fabricating plants are in Washington, California, Arizona, Missouri, Alabama, Kentucky, Illinois, Indiana, Ohio, Michigan, Pennsylvania, Maryland, and Massachusetts.

Most of these plants are now closed down, and some of them are dismantled. Those which are in operation are running at partial capacity. The plants are new and modern but they were built during the war at high costs and, for security reasons or because of stringencies of power and labor, the location and size of some of them are not suitable for postwar competitive operation. Some will require alteration or relocation in whole or in part, some will be useful for only stand-by defense purposes. Others, and it is to be hoped this comprises the majority, are capable of immediate economical peacetime operation.

The issue of monopoly versus competition is more clearly presented in the aluminum industry than in others in which the Government owns plants. The United States Circuit Court of Appeals for the Second Circuit, sitting in lieu of the Supreme Court, held on March 12, 1945, that Alcoa is a monopoly in the production of primary aluminum. The court deferred decision on whether the company must be dissolved until it is determined whether effective competition results from the disposal of the Government-owned plants.

It would seem that to provide a healthy light-metals industry, in compliance with the law, the Government-owned plants, or at least the major part of them, must be sold or leased to competitors of Alcoa under conditions of equal opportunity. This, however, is one of the questions which this committee will examine as it considers the reports—the surplus business.

The Small Business Committee and the Surplus Property Board in their reports submitted detailed recommendations for governmental action. The Attorney General approves generally the recommendations of the other two reports but takes the position in his report to the Congress that immediate dissolution of Alcoa is necessary for the disposition of Government-owned plants to achieve a strong and healthy competitive aluminum industry. A summary of the recommendations in these reports has been distributed. I hope that every person who intends to participate in this discussion has received one of these summaries, as it will afford a basis for the full discussion which the committee hopes will take place.

We shall begin the discussion of the reports first by calling upon Mr. W. Stuart Symington, the Surplus Property Administrator, and later by calling upon Mr. McGranery, the assistant to the Attorney General, perhaps today or tomorrow, and Mr. Sam Husbands of the RFC who was head of the Defense Plant Corporation during the war.

Before proceeding, however, it would be appropriate to hear from the chairman of the Small Business Committee under which the hearings upon the light-metals industry were conducted. I therefore call upon Senator Murray, of Montana, chairman of the Special Committee to Study and Survey Problems of Small Business Enterprises. Senator Murray.

Statement of Senator Murray

Senator Murray. Mr. Chairman, the Senate Small Business Committee is glad to join with the Military Affairs Committee and the Postwar Committee in this hearing. I want to say first that I am fully in accord with the views expressed in Senator O'Mahoney's opening statement.

The Senate Small Business Committee is particularly concerned with the disposal of the Government-owned plants so as to provide full employment, encourage small and independent business, and maximum development of the light-metals industry throughout the United States under terms of equality of opportunity to compete, and to remove all handicaps and discrimination against individuals, firms, localities, and regions of the country. We want to see quick action to turn the plants over to operators strong enough to provide active competition and to keep the plants in operation without any unnecessary curtailments or shut-downs in the reconversion period which lies immediately ahead.

In the hearings which were held by the Small Business Committee in February, March, and May of this year, there was a very full presentation of the status of the light-metals industry and its problems. The interim report of the Surplus War Property Subcommittee of the Senate Small Business Committee was sent to all parties who had expressed an interest in the subject, with an invitation that they submit their comments and criticisms. The numerous replies which have been received are available for the consideration of the joint committee.

There can be no doubt that, although difficult problems must be met and overcome, the light-metals industry is facing a brilliant future. I do not think it is extravagant to hope that we are in the early period of an age of light metals which will parallel the phenomenal growth of steel during the last 50 years. This will not be at the expense of, but in connection with, the increasing use of steel and other metals and nonmetallic materials, in an expansion of our whole ecenomy and standard of living to heights which we can now only dimly foresee. This is the goal which we must strive for.

Recommendations of Senate Small Business Committee

The Small Business Committee interim report recommends:

That the Government adopt a unified light metals program to promote the maximum usefulness of the industry for production, employment, and national defense.

That the Department of State negotiate with foreign countries having bauxite deposits, for delivery of bauxite to the United States in partial settlement of their lend-lease obligations.

That the bauxite reserves of the United States and deposits in other parts of the Western Hemisphere and in the islands and countries of the Far East, capable of supplying American industry, be fully explored.

That a Government stock-piling program for the national defense, which will also be the means of keeping aluminum plants in operation during the reconversion period, be undertaken.

That prices of alumina produced in the Government-owned plant in Arkansas be reduced.

That the operations of the Government experimental plants, producing the alumina from clay and domestic ores, be continued.

That the present duty on imported bauxite be repealed and that import duties on aluminum metal and fabricated aluminum be studied in relation to the comparative costs of manufacture in Canada and the United States.

That a controlled program for disposition of scrap aluminum, at low but ruinously low prices, be adopted.

That methods be adopted for conducting Government-financed research in the light metals industry.

That engineering and economic investigations be made by Reconstruction Finance Corporation to find out what relocations and alterations of present plants should be undertaken.

That studies be made of freight rates and Panama Canal tolls, with a view to the establishment of reasonable and nondiscriminatory levels.

That electric power supply and rates be investigated and measures undertaken to supply the needs of the light metals industry at adequately low charges.

And, finally, we suggest that terms of financing present plants, and of sale or lease to present and new independent operators, be made on a basis which will provide equality of competitive opportunity and encourage full production and employment.

The recommendations of the Small Business Committee, like those of the Attorney General and the Surplus Property Administration, are aimed at getting action now. The national security and national welfare require that there be no delays. It is to be hoped that, with the help of the discussion and criticisms of these three reports which we will receive at this hearing, the committees will be able to recommend to Congress the measures which should be adopted in the public interest, to assure permanent United States leadership in the light metals industry.

Senator O'MAHONEY. Thank you, Senator. You and I have not succeeded very well in provoking any interruptions. I hope that Mr. Symington may be more successful in that respect.

Are you ready to proceed, Mr. Symington?

Mr. SYMINGTON. Yes, sir.

Senator O'MAHONEY. Please give your name and your official position to the reporter.

STATEMENT OF W. STUART SYMINGTON, SURPLUS PROPERTY ADMINISTRATOR

Mr. SYMINGTON. W. Stuart Symington, Surplus Property Administrator.

As of September 21, the Surplus Property Board submitted its final report to Congress on the disposition of aluminum plants.

This report covers the economic problems incident to the disposal of the Government's investment in these plants of over $700,000,000, and presents for the consideration of Congress a plan for their disposal. This report is a final report to Congress, not an interim report.

Two other reports on this problem have recently been released by other Government agencies. They are the report of the Attorney General to Congress as required under section 205 of the War Mobilization and Reconversion Act of 1944, and the interim report of the Surplus War Property Subcommittee of the Special Senate Committee to Study the Problems of American Small Business.

Our statement today will comment on the recommendations of these two reports as they relate to the report of the Surplus Property Board, and also the actions taken by the administration, successor to the board.

The report of the Attorney General emphasizes that regardless of any plans for disposition of Government-owned aluminum plants, there will be no real assurance of competition, nor any atmosphere in which responsible operators will offer to run aluminum plants, unless and until the Aluminum Co. of America is dissolved into a number of smaller operating companies.

The dominant position of the Aluminum Co., its strong financial resources, its excellent research and production staffs, and its established market position, make it difficult to obtain the interest of other companies from the standpoint of becoming a competitor of Alcoa.

Senator REVERCOMB. Mr. Chairman, may I interrupt at that point?

Senator O'MAHONEY. Yes, Senator Revercomb.

Senator REVERCOMB. Mr. Symington, I understand from your report that you have made no effort yet to dispose of any of these plants. In other words, you haven't offered any of the plants in which the Government is interested, for sale to anyone. Is that correct?

Mr. SYMINGTON. No, sir; I wouldn't say that that is correct because a part of any sale is the trade incident to the sale; and we have been trying very hard to get people, Senator, who would be interested in a purchase or lease. They know that we want to sell them or lease them.

Senator REVERCOMB. Have you had any negotiations with the sale of any one for the sale of any particular plant?

Mr. SYMINGTON. I do not think it is fair to say we have had negotiations for sale, but we have had negotiations for lease.

Senator REVERCOMB. You have had negotiations for lease?

Mr. SYMINGTON. Yes, sir.

Senator REVERCOMB. For what length of time?

Mr. SYMINGTON. Well, that has been a subject for negotiation. I would say, 5 years.

FUNCTION OF SURPLUS PROPERTY ADMINISTRATION IS TO LAY DOWN DISPOSAL POLICY

Senator O'MAHONEY. May I interrupt, Mr. Symington, to say that the function of the Surplus Property Board, as I understand it, is to lay down the policy. The Defense Plant Corporation, or the RFC, is the disposal agency with respect to plants of this kind, I assume; is that not correct?

Mr. SYMINGTON. That is correct, sir. The question of the nature of the sale or lease would be so close to policy that the RFC and the Surplus Property Board have been working closely together.

Senator O'MAHONEY. The report which you have laid before us is the outline of your disposal policy?

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Mr. SYMINGTON. That is correct, sir.

Senator O'MAHONEY. The problems of actual negotiation for lease or sale will, I take it, be discussed by Mr. Husbands. Mr. Husbands, are you not prepared to go into that at the proper time?

Mr. HUSBANDS. Yes, sir.

Senator REVERCOMB. Let me ask one further question: While you as the Administrator, Mr. Symington, would lay down the policy, you, as you say, work very closely, or would work very closely, with the RFC on the matter of any negotiations for sale, wouldn't you?

Mr. SYMINGTON. Yes, sir.

Senator REVERCOMB. Now the thought I am trying to get here is, how can you form a conclusion about whether or not these plants can be sold if you haven't negotiated for the sale of them? That is the thought I have. How can you say today that these plants that the Government will offer for sale cannot be sold to some groups that will undertake to operate them, if you haven't tried to sell them?

Mr. SYMINGTON. Senator, I would like to answer that this way. Anybody who comes up for a lease of the plants we would like to sell, we would prefer to sell. Now again, as Senator O'Mahoney pointed out, as far as we are concerned we have to talk policy, but it is our understanding that there is nobody except Alcoa who would be willing, and perhaps able, to buy these plants at this time.

Senator O'MAHONEY. Have you said, as the Senator's question might imply, that the plants cannot be sold?

Mr. SYMINGTON. No, sir.

Senator O'MAHONEY. That has not been said?

Mr. SYMINGTON. Never.

Senator O'MAHONEY. Has any offer to purchase been made?

Mr. SYMINGTON. Not to my knowledge. Mr. Husbands would know that better than I would.

Senator O'MAHONEY. Mr. Husbands, has any offer of purchase ever been made?

Mr. HUSBANDS. No, sir.

Senator REVERCOMB. Have you sent out invitations to bid on these plants?

Mr. HUSBANDS. Yes, sir; we have advertised that we were ready to sell or lease, and we have had no offers to purchase except from Alcoa, which I think was made to Mr. Symington.

Senator MITCHELL. I wonder if I could ask the witness to clarify the situation as to what companies have made definite offers and what terms they are seeking?

Senator O'MAHONEY. Senator Mitchell, I wonder if you would permit Mr. Husbands to answer that question?

Senator MITCHELL. Yes. I might say this, Mr. Chairman, that I would like to have a clear line of delineation here between the two. I think, as far as I have been able to determine, that they are working jointly on this problem. I would like to know whether they are or whether this is a responsibility of the RFC?

Mr. HUSBANDS. Yes, sir. We have had only one definite offer. That was from the Reynolds Metals Co. on a lease basis, on what we speak of as the Alcoa-type contract, modified.

Senator MITCHELL. That is somewhat in line with your proposal of last August?

Mr. HUSBANDS. That is correct.

Senator MITCHELL. Modified so that the company takes part of the risk?

Mr. HUSBANDS. That is correct; yes, sir. That is the only definite offer we have received. I might say this, that we did have an offer 3 or 4 months ago from Mr. Gallagher's outfit—I have forgotten the name of the company—which involved something to the effect that the Government would guarantee to him delivery of alumina at a certain price.

Senator O'MAHONEY. That is the Columbia Metals Co.; isn't it?

Mr. HUSBANDS. Yes, sir.

Senator MCCLELLAN. Mr. Chairman, may I ask a question in that connection?

Senator O'MAHONEY. Senator McClellan.

Senator MCCLELLAN. You said you had a definite offer from the Reynolds Metals Co. Was that for all of the plants in this program of disposal, or for specific facilities?

Mr. HUSBANDS. I think we ought to say this: That we are speaking of those plants which we think might be economically operated at the present time. Those are the aluminum-reduction plant at Spokane; the aluminum-reduction plant at Troutdale, Oreg.; the aluminum-reduction plant at Jones Mills, Ark.; and the alumina plant at Hurricane Creek. Those are the four plants that interest has been expressed in up to the present time.

Senator MCCLELLAN. By the Reynolds Metals Co.?

Mr. HUSBANDS. Yes, sir.

Senator O'MAHONEY. Have you concluded, Senator Mitchell?

Senator MITCHELL. I would like to ask one more question. On the basis of that am I to infer that the complete responsibility for the disposal rests with the RFC?

Mr. HUSBANDS. No, sir. Under the directive of the Surplus Property Administrator all aluminum plants costing over $500,000 must be also approved by the Administrator.

Senator MITCHELL. That is all.

Senator O'MAHONEY. You may proceed, Mr. Symington.

ANTITRUST QUESTIONS ARE FOR ATTORNEY GENERAL TO DECIDE

Mr. SYMINGTON. It is not the business of the Surplus Property Administration, however, to decide whether Alcoa should be dissolved, or whether changes should be made in its structure and methods of operation. These are questions which have to do with the enforcement of the antitrust laws, as decided by the courts.

The Attorney General controls all antitrust litigation. He decides what steps must be taken to correct violations of the law. Our report, therefore, did not include any recommendations about this problem.

The court of appeals in New York did not state it was the duty of the Surplus Property Board to reach any decision about dissolving Alcoa, or enforcing the antitrust laws. It did indicate, however, that it was the duty of the Board to dispose of these aluminum plants in accordance with the objectives of the Surplus Property Act; and suggested that in doing so the Surplus Property Board seek to accomplish the same objectives to which the court was committed.

Senator WHERRY. You said that you had definite offers from Alcoa for some of these plants?

Mr. SYMINGTON. Senator, I don't know exactly what you would call "definite."

Senator WHERRY. That was your testimony.

Mr. SYMINGTON. They expressed an interest in the plants. I would rather pass that one to Mr. Husbands.

Senator WHERRY. Have you had, Mr. Husbands, some definite offers by Alcoa for some of these reduction plants?

Mr. HUSBANDS. I am going to have to pass the buck on that because the offer, I think, was made to Mr. Symington.

Mr. SYMINGTON. It depends on what you would call "definite." Could I read the record as we put it into the report?

Senator WHERRY. Yes. I didn't mean to interrupt you. What I meant was, in the event you have had definite offers by Alcoa—then, according to your recommendations in your report, carrying out the purposes of the report, you would offer these plants to competitors of Alcoa first. That is right, isn't it?

Mr. SYMINGTON. Yes, sir.

QUESTION RAISED AS TO WHETHER PLANTS CAN BE SOLD TO ALCOA UNDER ATTORNEY GENERAL'S DECISION

Senator WHERRY. What I want to know is, If you have had those definite offers, and no competitors have offered to take these plants, have you then had any negotiations with Alcoa as to sales to them?

Mr. SYMINGTON. I have had no negotiations——

Senator WHERRY (interposing). Well, who would have?

Mr. SYMINGTON. Could I go along with that thought first?

Senator WHERRY. Fine.

Mr. SYMINGTON. We have one company which is interested in obtaining the plants in which Alcoa is interested.

Senator WHERRY. Let me ask you a pointed question. In the event that no competitor offers to buy these plants, is it going to be your policy to sell these plants to Alcoa on the definite offers they have made, or are you going to withhold that and attempt to sell them through some other method or policy than you have referred to in your report?

Mr. SYMINGTON. It is our understanding, sir, that we cannot sell the plants to Alcoa, as the result of a decision of the Attorney General.

Senator WHERRY. What decision?

Mr. SYMINGTON. I will have to apply for a little legal aid on that.

Senator O'MAHONEY. Mr. McGranery, the assistant to the Attorney General, can refer to the decision of the circuit court of appeals.

Senator WHERRY. Then Mr. McGranery will answer that question for me—is that right? Have you based this report of yours on your own investigation of facts, or are you basing it on somebody else's facts?

Mr. SYMINGTON. Well, it would seem to me that the question of whether or not you could sell the plant would not be one of fact. It would be whether the Attorney General said we could, or not. Here is our general counsel, Mr. Cox, who might answer that; I am not a lawyer.

Senator WHERRY. What that means is this: That if you have a definite offer from Alcoa, and in the event a competitor doesn't show up, you wouldn't sell the plant to Alcoa until you were advised that you could by the Attorney General?

Mr. SYMINGTON. That is right, sir.

Senator O'MAHONEY. Mr. Cox, do you have a copy of the decisions of the United States circuit court of appeals?

Mr. MCGRANERY. We have one, Mr. Chairman.

Senator O'MAHONEY. Well, I think that it would be appropriate to quote from that decision. There is a quotation in the report, is there not?

Senator WHERRY. Not in his report. I am perfectly willing to let this go until Mr. McGranery comes up, if that is for him to handle. It is all right with me. If the policy of the Administrator is to put it up to the Attorney General's office, that is what you are going to be governed by and you are not going to accept that responsibility?

Mr. SYMINGTON. I understand that.

Mr. MCGRANERY. As part of the opinion of the Circuit Court of Appeals for the Second Circuit, it is stated——

Senator O'MAHONEY. In other words, what you are referring to now is not the opinion of the Attorney General or the opinion of the RFC, or the opinion of the Surplus Property Administrator, but it is the opinion of the court?

Mr. MCGRANERY. The Circuit Court of Appeals for the Second Circuit.

Senator O'MAHONEY. Will you read that into the record?

Senator WHERRY. Before he does that I would like to ask this question: Where, in that opinion, do you get the basis for advising the Surplus Property Administrator not to sell one of these plants to Alcoa in the event a competitor has not made an offer for the plant?

Mr. MCGRANERY. Right here, sir. [Reading:]

Finally, no disposal agency——

Senator WHERRY (interposing). Will you give me the page of the opinion, and the section, so that I can check it?

Mr. MCGRANERY. It is page 1254, about midway down the page, Senator. It is the case of *United States* v. *Aluminum Company of America et al.*

Senator O'MAHONEY. Decided when?

Mr. MCGRANERY. Argued January 2, 3, and 4, 1945, and decided March 12, 1945.

It states here:

> Finally, no disposal agency shall even begin negotiations to sell a plant which has cost over a million dollars without advising the Attorney General of the probable terms or conditions of the sale; and he in turn must tell the agency whether the proposed disposition will violate the antitrust laws. The act must not be read to impair, amend, or modify those laws, or to prevent their application to purchasers of surplus property.
>
> In view of these declarations of the purpose of Congress, the agency which the Board designated to dispose of the plaintiff's aluminum plants and facilities may well believe that it cannot do so without some plan or design for the industry as a whole some comprehensive model which shall, so far as practicable, reestablish free independent private enterprise, discourage monopoly, strengthen small competitors, foster independents and not foster monopoly or restraint of trade. If it should find this method desirable, it would have to learn what purchasers were in the market, how strong they were, what units they could finance and operate, and in what position they would be to compete.

In such a model or design the agency would have to assign a place to Alcoa, and that place no one of course can now anticipate. Conceivably Alcoa might be left as it was; perhaps it might have to be dissolved; if dissolved, the dissolution would depend upon how the other plants were distributed. If the agency should find it wise to proceed in this way, it may succeed in inducing Alcoa to accept the place assigned to it, particularly if the plan has not been prepared ex parte. If it does not succeed, then, but then only, will it be appropriate for the district court to act. We do not of course mean that in deciding whether to dissolve Alcoa, or how to do it, that court must be governed by any plan which the agency may have devised, if it does devise one. But, plan or no plan, it must wait until it learns what the agency has in fact done. Moreover, if the agency does form a plan, it will have been an attempt to realize the same objectives for which the court itself must strive; and the court may well feel that it should accord to the agency's plan that presumptive validity which courts are properly coming more and more to recognize in the decisions of specialized tribunals. Nothing which we now say ought in any measure to limit the discretion of the agency to proceed in this way. Therefore we shall merely reverse the judgment, so far as it held that Alcoa was not monopolizing the ingot market, and remand the case to the district court.

From what we have already said, we must deny the plaintiff's prayer that those shareholders who own shares in both Alcoa and Limited, shall dispose of one or the other. Since we have affirmed all the findings as to unlawful practices except the price squeeze, again it follows that no injunction will go to these.

I think that is far enough, as it gets into the question of price there.

In other words, Senator, there is no plan. In answer to your question, if there were no other bidders but Alcoa we would have to go right back to the second circuit and say, "Here is our plan; can Alcoa acquire it, or can't they?"

Senator WHERRY. And as I get the procedure, the Surplus Property Administrator, if he had to sell a plant costing over a million dollars, would go to the Attorney General and the Attorney General would be asked as to whether or not he should sell the plant in view of his policy—and then what does the Attorney General do?

Mr. MCGRANERY. Alcoa can go in, or we can, and ask the second circuit, "Here is our plan: can Alcoa acquire these properties; will she be a monopoly if they are acquired?"

Senator WHERRY. The same thing would be true with respect to Reynolds?

Mr. MCGRANERY. Well, Reynolds was not before the court.

Senator WHERRY. Well, you are developing a policy; this plan is going to sell these plants. Now what I want to know is this—and it seems to me that it is wholly within the realm of the Attorney General—if and when no competitor offers to buy, are you going to tell the Surplus Property Administrator that he can't sell it to Alcoa because of what you read from that opinion?

Mr. MCGRANERY. We wouldn't say he couldn't sell it to Alcoa, but we would go right to the court and say, "Here is our plan; does this come within the purview of the court's ruling?"

Senator WHERRY. Just what is your plan, briefly? Are you going to give your plan when you testify?

Mr. MCGRANERY. No; we have no plan.

SENATOR O'MAHONEY EXPLAINS POLICY AS INVOLVING A BETTER ECONOMY UNDER FREE ENTERPRISE WITHOUT MONOPOLY

Senator O'MAHONEY. Senator Wherry, may I interrupt to say that in order to clear up this situation it should be borne in mind first of all that Congress, in passing the Surplus Property Act, clearly stated what it believed the policy should be, and that policy was to support and reestablish the competitive system. Secondly, Congress directed the Attorney General to make a report to Congress as to the effect of any action upon the competitive system, upon little business, and upon the concentration of economic power.

Now as I see it, in compliance with this directive—to use the modern word—of Congress, both the Surplus Property Administration and the Attorney General have made their reports to us. We are now reviewing those reports. So that we should not, it seems to me, approach this from the point of view of a fixed purpose.

The Attorney General has recommended the dissolution of Alcoa. Perhaps Congress may come to the conclusion that Alcoa should not be dissolved. We can determine that only upon the facts. Now that was the position which the circuit court of appeals took. It declined to order the dissolution of Alcoa in this case, decided last March, although it found that Alcoa was a monopoly, because it was unable to foresee what the effect would be upon the whole situation of the disposal of the plants.

I find this sentence in the decision under the heading, "The remedies":

Dissolution [meaning the dissolution of Alcoa] is not a penalty, but a remedy; if the industry will not need it for its protection, it will be a disservice to break up an aggregation which has for so long demonstrated its efficiency. The need for such a remedy will be for the district court in the first instance, and there is a peculiar propriety in our saying nothing to control its decision, because the appeal from any judgment which it may enter, will perhaps be justiciable only by the Supreme Court, if there are then six Justices qualified to sit.

If ever there was a time when the phrase that Grover Cleveland made famous, is applicable, I think it is here. He said, "We are facing a condition and not a theory." Now the theory of Congress has been that we can get a better economy and more prosperity under the free enterprise system, without monopoly. The court has observed that because of the tremendous expansion of the aluminum industry by Government investment, conditions have been created which will enable the Government through its disposal agencies to restore competition in this industry; and what we are doing here, as I see it, is to gather the facts as best we can to determine, in the last analysis, what is best for all the people in the United States.

I might point out, since Alcoa is so important an element in this discussion, that the greatest benefit which was ever extended to the petroleum industry was, I think, the decision of the Supreme Court which ordered the dissolution of the old Standard Oil trust. When that old Standard Oil Co. was broken up into its various units, each of the units, because there was freedom of enterprise, became more powerful and a better employer of labor, a better purveyor of business, than the original company was.

So that that, I take it, may be what the Court had in mind when it was saying, even to Alcoa, that dissolution is not necessarily a penalty but a remedy, and it may be a very beneficial remedy.

Senator WHERRY. May I say a word, Mr. Chairman?

Senator O'MAHONEY. Certainly.

Senator WHERRY. I think I understand the explanation given by Senator O'Mahoney. I believe that the Small Business Committee put in about as much time hearing the evidence on all phases of this ques-

tion as any committee we have in the Senate, and I attended most, if not all, of those meetings. I am interested in the private enterprise system, intensely interested, and that is the reason I asked the question, and I think the record ought to be straight here. I am a member of the Small Business Committee and I have seen its report. I can wholeheartedly go along with all of that report because I am satisfied that we gave an exhaustive study as to the monopoly here of Alcoa and of the Reynolds people. We didn't find any monopoly in the control of bauxite, we didn't find any monopoly in the control of the water power of this country; we didn't find any control, either by Alcoa or Reynolds, of alumina, and the only place where there was any question of monopoly was in the primary aluminum, and it was upon that opinion, then, that they were to go in and find out if it would be a disservice whether or not Alcoa would be permitted to come in and buy.

I am perfectly willing, and want the chairman and everybody here to know that I don't want any monopoly—I certainly do not—but we get back to the point of whether we are going to subsidize business to go in or whether we are not; and that is what it amounts to.

I just wanted to know, in your opinion, Mr. Symington, or upon the advice of the Attorney General, in the event a competing company, say Reynolds or anybody else that came in, did not make an offer, just how you would be guided in the sale of one of these plants. You have told me the Attorney General also stated what they were going to do, and I think we understand it, and I want to thank you for it.

Mr. SYMINGTON. Thank you, sir.

Senator O'MAHONEY. Proceed.

Mr. SYMINGTON. The Court then pointed out that it was necessary to postpone any decision on the question of dissolution until the Surplus Property Board had worked out a plan for disposing of these Government-owned plants.

EFFORTS LOOK TO SALE OF PLANTS TO ALCOA'S RIVALS AS MATTER OF DUTY UNDER ACT OF CONGRESS

The Surplus Property Administration is trying to dispose in accordance with the objectives of the act.

Once the plants have been disposed of, the job of the Administration is done; and the question of what happens in this litigation will be decided by the Court.

We are trying to sell or lease these aluminum plants to competitors of Alcoa, believing this our duty under the act.

This should be done as quickly as possible, in order that the plants can be working at the earliest possible time. It would be unfortunate if the disposition of the plants had to wait on the disposition of the lawsuit.

The Attorney General recommends that the Surplus Property Board be guided by the necessity of creating competition in the production of aluminum.

This is our prime objective. We make all other objectives subservient to it; and therefore the Administration has canceled the Government leases of ingot plants with Alcoa, has actively negotiated with other companies, and is trying to arrange with these other companies suitable terms for lease or sale.

Our report to the Congress recommended priorities in plant disposal which would give first preference to competitors of Alcoa, and second preference to Alcoa, only provided the Attorney General was satisfied any terms conferred no competitive advantage to Alcoa.

ADMITS CONFUSION OVER WHAT TO DO IF ALCOA'S COMPETITORS FAIL TO MAKE AN OFFER

The Surplus Property Administration now faces the practical question of what shall be done with any of the facilities if no competitor to Alcoa offers to take over said facilities except under terms of outright subsidy, with a guaranty against all loss. Frankly, we do not yet know how to meet this problem, although the Attorney General's report would indicate that leases should be arranged, even if on unfavorable financial terms to the Government.

Senator MITCHELL. Of course, you do have an offer now from Alcoa, which offers to assume the risk; is that not true?

Mr. SYMINGTON. I don't think we have one, Senator, from a company—again I would defer to Mr. Husbands—that offers to assume all the risk.

Mr. HUSBANDS. No, we have not.

Senator MITCHELL. Or to assume some portion of the risk—is that the situation?

Mr. HUSBANDS. I think they proposed to lease the plant provided the Government will guarantee them alumina at some set price, the rental to be set at so much per pound of alumina, but that rental to be——

Senator MITCHELL (interposing). Don't they, in their offer, seek to purchase the alumina plant, too?

Mr. HUSBANDS. No, sir; it is not a purchase, it is a lease.

Senator MITCHELL. I mean to say lease. Don't they want to lease the Hurricane Creek alumina plant together with the reduction plants?

Mr. HUSBANDS. Yes, sir.

Senator MITCHELL. And they assume that they can produce alumina at a certain cost?

Mr. HUSBANDS. I think I should get this over, Senator, before we go further into the details on this, because I think we ought to discuss that at length. I know you are referring to the Columbia Metals. That is correct, isn't it?

Senator MITCHELL. No.

Mr. HUSBANDS. To whom are you referring?

Senator MITCHELL. Reynolds.

Mr. HUSBANDS. I have got their offer before me, if you would like to go into that now.

Senator MITCHELL. Mr. Chairman, I don't want to interpose here——

Senator O'MAHONEY (interposing). I think it would be more appropriate to go into that a little later.

Senator REVERCOMB. Mr. Chairman, let me ask a question.

Senator O'MAHONEY. Yes, Senator.

Senator REVERCOMB. I am impressed here that you have more or less laid down the policy of leasing, rather than sale. Is that correct?

Mr. HUSBANDS. No, sir; we will do either, but we have had no offers to purchase, no interest in purchasing by anyone.

SENATOR BAILEY'S BILL TO BAR COMMERCIAL OPERATION BY GOVERNMENT AGENCY

Senator O'MAHONEY. I think perhaps it would be appropriate to point out here that there has been introduced in the Senate, and referred to the Committee on Military Affairs, and by that committee to the Committee on Surplus Property, S. 1475, a bill by Senator Bailey, of North Carolina, to amend section 15 of the Surplus Property Act of 1944. This bill deals with the precise question that has been raised by these interrogations. The new language which Senator Bailey's bill proposes reads as follows:

Nothing contained in this Act shall be deemed to authorize: (1) the commercial operation by any Government agency of any plant declared to be surplus property; or (2) the disposal of any such plant on terms which directly or indirectly obligate the United States or any Government agency to pay losses resulting from, or otherwise to subsdize, the commercial operation of such plant.

It is the understanding of the chairman that the RFC, for purposes of the war, was authorized to make subsidy contracts, to make contracts by which the Government assumed the losses. I understand that inquiry has been made of the Surplus Property Administration as to whether in the opinion of its legal counsel the Surplus Property Act authorizes the Surplus Property Administration or any of the disposal agencies to make such contracts as were made by Defense Plant or RFC.

Can you answer that, Mr. Cox?

Mr. COX. It is my present view that the Surplus Property Act does not authorize the Surplus Property Administration or any disposal agency to make any direct money payment by way of subsidy, or to make up an operating deficit. I think it might authorize you—in fact I think it probably does—to make a lease agreement whereby your rentals and other payments went up and down, depending upon how much money the man made, or where money lost in one year might be credited against rent in another. But that is quite a different thing from a direct money payment, which would, of course, involve the use of appropriated funds and therefore raises a completely different set of questions. As to the RFC Act, I would prefer to have Mr. Goodloe speak as to that, but I understand he has reached substantially the same conclusion under that statute.

Senator O'MAHONEY. Mr. Husbands, have any of the proposals or suggestions for proposals which have been submitted to you or your staff involved any such assumption of loss by the Government?

OFFER OF REYNOLDS METALS CO. DESCRIBED

Mr. HUSBANDS. Well, the offer of the Reynolds Metals Co. in substance was this, Senator—I will brief it if you like—that they lease the plants for a period of 5 years. By "plants" I am referring to the four plants I mentioned a moment ago. For the first year the Government would stand all the loss in operations, if any, and the profits would be divided, in this manner: First, the Government would get the depreciation on that portion of the plant used. Then the Government would get 85 percent of the profits, and Reynolds would get 15 percent before income taxes. They proposed that the Government guarantee to buy the aluminum produced by these plants, 85 percent of their capacities, at 14 cents for pig and 15 cents for ingot, and also that the Government shall negotiate the power contracts.

Senator REVERCOMB. Mr. Chairman, may I ask a question at this point, of Mr. Husbands?

Senator O'MAHONEY. Yes.

Senator REVERCOMB. Mr. Husbands, that offer means virtually the Government in business and operating the plants, does it not?

Mr. HUSBANDS. The Government guarantees them against loss.

Senator REVERCOMB. Yes; and that is hardly a stimulation of free independent enterprise, is it?

Mr. HUSBANDS. Well, as I see it, Senator, that which you have are some aluminum plants that you cannot get industry to undertake to operate. It is merely a question of whether there shall be a trial period in which industry, other than Alcoa, comes in to compete; and in view of the situation as it exists, with big stock piles of aluminum on hand at the present time, and uncertain markets, we have found no industry which was willing to go in on a clean lease and take it for better or for worse.

Senator O'MAHONEY. Mr. Caskie, did you want to make a remark?

Mr. CASKIE. I don't agree with Mr. Husbands. The proposal submitted by Reynolds assumes very great risk—15 percent of the loss and never more than 15 percent of the profits. Those losses can be very substantial.

Mr. HUSBANDS. I should have said that after the first year Reynolds did agree to stand 15 percent of the losses.

Senator O'MAHONEY. As we proceed no doubt these various things will be analyzed.

Senator WHERRY. Doesn't that offer go on and permit the leasing company to purchase the plant on an earnings basis, after a certain showing for a number of years?

Mr. HUSBANDS. No, sir; their offer provides that at the end of 1 year they shall be allowed to negotiate for the lease of the plant on a commercial basis, not a purchase.

Senator WHERRY. There is no place in the contract, or no offer has been made where, after being on a lease basis for perhaps 1, 2, or 3 years, the worth of the plant is to be determined upon its earnings, and then the leasing company would have the right to buy it?

Mr. HUSBANDS. No sir.

Mr. CASKIE. It is perfectly agreeable to Reynolds to have such a provision.

Senator WHERRY. I understand from our Small Business hearings that such a proposition has been made and that was under consideration, and I wondered if it was part of this offer?

Mr. HUSBANDS. No.

Senator MITCHELL. Didn't the RFC think that, by operation of the plant over a period of years, and by a determination as to what the real market would be, then you could reach a real figure as to the value of the plant?

Mr. HUSBANDS. That is true on a great number of our plants, sir.

Senator MITCHELL. You can't set a definite figure now and know that that is going to be the value of the plant 5 years from now?

Mr. HUSBANDS. That is true. We have leased over a hundred plants on what we call a temporary basis, to give the operator a chance to

determine what he can do with the plant, and the rent is comparatively small. Now there is no case where we guarantee anyone against loss, you understand that, but we have leased plants on a trial basis, so to speak.

Senator WHERRY. Are those plants mostly fabricating plants?

Mr. HUSBANDS. Well, they are various kinds of plants. I am not referring to aluminum plants, I am referring to plants generally.

Senator WHERRY. But it isn't your policy now to effect a sale at the end of that period on the basis of the earnings of the plant?

Mr. HUSBANDS. That would be our policy; yes.

Senator WHERRY. That will be your policy?

Mr. HUSBANDS. Absolutely.

Senator WHERRY. Then don't you find yourself in this position: You might take the Reynolds Co. and they would produce an outstanding result, and you would have a high valuation at the end of the period?

Mr. HUSBANDS. That is true.

Senator WHERRY. Or, you might take a company which, because of mismanagement and maladministration, or this or that or the other thing, produced a totally different picture way below the value of the plant. How are you going to be guided in that event?

Mr. HUSBANDS. I think Mr. Symington, in his report, makes the recommendation that if this method of leasing is adopted then we should be careful to pick those who apparently are capable, in a metallurgical line, and of proven ability.

Senator WHERRY. Are there any in the field now that you feel have the ability to do it on that basis, who might not be interested in an outright sale of these plants and be what we call competitors in the field of private enterprise?

Mr. HUSBANDS. I might say that we had the American Smelting & Refining interested in these plants until recently, but they have backed up on us.

Senator WHERRY. Why?

Mr. HUSBANDS. They say they would not care to have any part of a subsidy, for one reason; and another is that they are too large for them. The Olin Corp. was interested until recently and they have now backed out of the picture.

Senator WHERRY. Why did they back out?

Mr. HUSBANDS. I think Mr. Symington can answer that question; he talked with them.

Senator WHERRY. What I am trying to find out is this: Here you have got the Olin Co., and I heard about this other company, figuring on going into business on a free-enterprise basis, and now they have backed down. I would like to know why.

Senator O'MAHONEY. Senator, may I suggest, in the interest of the orderly development of this hearing, that a discussion of the precise proposals might better await the development of Mr. Symington's comments upon the report?

(Discussion off the record.)

Senator O'MAHONEY. Proceed, Mr. Symington.

Mr. SYMINGTON. If Congress would authorize, or refuse to authorize, the Reconstruction Finance Corporation to subsidize new

aluminum producers, such action would help by determining how far the Government can go in any disposal contracts.

A related problem arises in those fields of fabrication where there is now some competition to Alcoa; and where Alcoa appears willing to acquire Government facilities. If Alcoa can use the properties in question, can provide additional employment, and can furnish the Government suitable financial terms, a question arises as to the point at which monopoly is created.

As we see it, this issue should be decided by the Attorney General under section 20 of the Surplus Property Act.

Finally, in our effort to obtain competition, we are faced with proposals made by organizations which do not appear to have responsible financial backing, or adequate technical staffs, or production and marketing organizations capable of operating an aluminum business successfully. Because we wish to assure a steady operation of the plants, it appears unwise to entertain offers from individuals or firms who do not have adequate resources or experience.

BAUXITE

The Attorney General recommends a complete survey be made of available bauxite resources in this country. This is not within our jurisdiction, but we believe continued exploration of domestic bauxite reserves should be encouraged, and the Bureau of Mines granted sufficient funds for this purpose.

The Attorney General recommends a thorough engineering and cost analysis; this in order to determine what will be the costs of producing alumina at Government-owned plants when utilizing available grades of domestic bauxite.

Such cost data are now available, based on wartime performance.

In addition, we have recommended an engineering survey by the Reconstruction Finance Corporation as to costs of operation at relatively low levels in relation to plant capacity; and RFC is now undertaking such a survey.

Senator MITCHELL. When will that survey be completed?

Mr. HUSBANDS. I think very shortly, sir. They have been on it a couple of months; that is being made by Dorr & Co.

Senator MITCHELL. I ask that question in relation to the present operation of the plants by Alcoa. As I understand it, they will get out of the plants on the 1st of November.

Mr. HUSBANDS. That is correct.

Senator MITCHELL. Will that information be available so you can use it in reaching a conclusion through negotiations by that time?

Mr. HUSBANDS. I would think we would be able to discuss with Dorr & Co.—their formal reports will probably not be prepared—but in an advisory capacity I think we would probably be able to get all the information that we need.

Senator MITCHELL. Do you think you will reach a conclusion on negotiations for the lease of the plants by the time Alcoa leaves the plants?

Mr. HUSBANDS. It depends upon the action here as to the policies which Mr. Symington——

Senator MITCHELL (interposing). Of course, the policy on leasing does not have to be acted upon by Congress, does it?

Mr. HUSBANDS. I think on the question of a subsidy, we should have guidance on that point, sir.

Senator WHERRY. You mean subsidy arising from rentals?

Mr. HUSBANDS. I mean this guaranty of losses.

Senator WHERRY. From losses?

Mr. HUSBANDS. If there is a loss.

Senator REVERCOMB. You say you will need guidance on it. You will also need authority, will you not?

Mr. HUSBANDS. I will have to ask our counsel to answer that question.

Senator MCCLELLAN. May I ask a question?

Senator O'MAHONEY. Yes, Senator McClellan.

Senator MCCLELLAN. Have you already predetermined that if Congress does not take affirmative action to prevent this policy from going into effect, you are ready to accept the proposition made by the Reynolds Metals Co.? Have you already predetermined that?

Mr. HUSBANDS. That will be up to Mr. Symington as a matter of policy.

Senator MCCLELLAN. Has that been determined yet?

Mr. HUSBANDS. No, sir.

Senator O'MAHONEY. Proceed, Mr. Symington.

Mr. SYMINGTON. The Attorney General recommends that the Government stock pile of bauxite be made available to independent producers for use in operating the Hurricane Creek alumina plant. The Surplus Property Board has requested that the Metals Reserve stock pile be withheld from declaration as surplus and be offered to the Hurricane Creek operator to whatever extent is necessary to supplement Arkansas, or other, domestic production.

POWER

The Attorney General recommends that power surveys be made immediately, in order to determine what arrangements are possible to assure the cheapest supply of electric energy. Our report has called attention to the inflexibility of power contracts in the Pacific Northwest and the Tennessee Valley, and has suggested that Congress may wish to consider a modification of the laws which prevent Federal agencies from disposing of power on competitive terms to possible operators of Government aluminum plants.

Senator MITCHELL. Mr. Chairman.

Senator O'MAHONEY. Senator Mitchell.

Senator MITCHELL. On that point, I wonder if you plan to go into these problems with the agencies at a later time, or should we discuss that now? I would like to discuss the Columbia Valley power rate at some time during the hearings.

Senator O'MAHONEY. That is an integral part of this problem, and it will be brought out, of course.

Senator MITCHELL. You would rather not go into it now?

Senator O'MAHONEY. I think not.

Mr. SYMINGTON. May I proceed, Senator?

Senator O'MAHONEY. Please.

PLANT LOCATIONS

Mr. SYMINGTON. The Attorney General suggests studies as to the possibility of relocating various plants, with special emphasis on moving fabricating facilities nearer to ingot facilities; also whether it would be feasible to cut down the size of the larger Government-owned plants.

In its report, the Surplus Property Board recommended three policies, namely:

1. Engineering investigations to be made by the Reconstruction Finance Corporation to determine what changes are needed in plants to improve disposability and to recover the largest amount of the Government's investment. The RFC could finance these changes provided the costs appear to be recoverable.
2. Valuations of plants for sales and rental terms for lease to be adjusted by the RFC to reflect earning value, based on actual or prospective ability of the plant to compete with Alcoa and Alted in shipping products to common markets.
3. Equipment to be moved to better locations at Government expense, provided costs appear to be recoverable.

SENATE SMALL BUSINESS COMMITTEE REPORT ON LIGHT METALS

The interim report on the future of light metals submitted by the Surplus War Property Subcommittee of the Senate Small Business Committee is based on extensive hearings of the problems of the light metals industry, and strikes us as being a very good report.

While we agree in the main with its approach to the aluminum problem, however in many of its recommendations it would seem there is assumption of certain authority and powers for the Surplus Property Administration which the administration does not have.

We are not criticizing these recommendations on their merits. Our point is only that in a number of cases, the subcommittee has recommended we adopt policies outside the scope of our authority.

For example: The report recommends that the Surplus Property Administration request the Department of State to make arrangements to give American producers access to bauxite reserves on land taken from Japan, and that we call upon the Department of the Interior to make accurate surveys of bauxite reserves all over the world. Of course, we can make requests, we already have to the State Department and FEA relative to exploring the question of foreign bauxite for American aluminum producers; but this agency has no authority to coordinate or control the activities of other Government agencies in fields other than surplus disposal.

SOME RECOMMENDATIONS LOOK TO INVESTIGATIONS OUTSIDE AUTHORITY OF SURPLUS PROPERTY ADMINISTRATION

The report recommends that we study and report to Congress recommendations for methods to be adopted in conducting Government-financed research relative to the uses, processes, and markets for light metals, and that we do the same with respect to methods by which Government laboratories, and public and private educational and research institutions, might be employed to demonstrate processes and uses of light metals.

We agree these might be useful investigations, but have not the authority to conduct them.

The report of the Senate Small Business Committee also recommends that we study freight rates with the assistance of the Interstate

Commerce Commission; that we call upon carriers to make changes in rates so as to eliminate discrimination and excessive charges; that we investigate Panama Canal tolls on bauxite; and that we study electric power costs and rates with the aid of the Federal Power Commission.

It is our opinion that any activities of this kind would be beyond the scope of our authority.

The Surplus Property Act authorizes us to provide for the care and handling and disposition of surplus property, and for the transfer of surplus property between Government agencies. This is the extent of our authority. To do a good job in this restricted field will take all of our time and effort. We should not attempt to handle further matters, even though they may be closely related to the problems of surplus disposition. We feel there are other Government agencies and departments better equipped to undertake the kind of tasks referred to.

Nevertheless, in our report, and through subsequent actions, we have recommended, or taken steps to carry out, the following suggestions of the subcommittee's report:

1. We have proposed a unified program for the Government-owned aluminum plants. This program is stated in detail in our report to Congress, as of September 21.
2. We have asked the State Department and the FEA to explore the problems involved in negotiating with those foreign nations who might make bauxite available to American producers.
3. We wish to cooperate with the Government stockpile-procurement agency in coordinating stockpile acquisitions of bauxite and aluminum with possible Government purchases of output that would help in operation of Government-owned plants.
4. We propose to use the Government-owned stockpile of bauxite at Hurricane Creek as an aid in the operation of the alumina plant, and would assist any prospective new aluminum producer through joint discussions with other Federal agencies on various means of securing access to foreign bauxite.
5. We propose to offer the Hurricane Creek alumina plant to competitors of Alcoa on terms that should make it possible to sell alumina to others on a competitive-price basis.
6. We recommend that the four small semicommercial alumina plants be kept in production until they have had time to demonstrate the feasibility of the processes. These will then be turned over to the operators, and those not accepted will be turned over to the Bureau of Mines for experimental work.
7. We have recommended in our report a comprehensive plan for dealing with the problem of secondary and scrap aluminum that is in agreement with the objectives of the Senate subcommittee's recommendation.
8. We have set forth an order of priorities of disposal for plants which seems consistent with the desires of the subcommittee.

May we now comment on questions that have been raised by interested persons in Arkansas and the State of Washington, urging that certain plants be now again leased to Alcoa, in order to help employment in the local areas concerned.

PRIME OBJECTIVE OF SURPLUS ACT IS OVER-ALL NATIONAL EMPLOYMENT

The Surplus Property Act places employment as one of its prime objectives. This means over-all national employment, however, not employment in one area, created at the expense of a reduction in jobs in another area. If we were to turn over to Alcoa the plants in question—Hurricane Creek, Jones Mills, and Spokane—that action would make impossible the carrying out of the program submitted in our report to Congress.

Nor would we actually be creating any new employment, rather we would be promoting employment in certain States, at the expense of employment in other States.

Alcoa proposed to operate the Government plants at the same average rate as its own plants.

At present Alcoa has cut back its own production at Badin, N. C., and Alcoa, Tenn., and has canceled power contracts with the TVA, to be effective later this year.

It is estimated that Alcoa's idle capacity at the end of 1945 will be between 300 and 400 million pounds of primary metal, with corresponding amounts of idle alumina capacity in the plants at East St. Louis and Mobile.

If the Government had accepted Alcoa's offer, Alcoa would have had to produce aluminum and alumina in the Government plants, and correspondingly reduce production further in their own plants. We cannot construe the Surplus Property Act to authorize a policy that promotes employment in Hurricane Creek, or Jones Mills, and throws men out of work at Massena, or Niagara Falls, or Badin, or Alcoa, Tenn., or Mobile, or East St. Louis. The act is a national law for the national interest. It should be carried out in order to promote a new national gain in employment.

At the end of August the Surplus Property Board was confronted with whether to cancel the Alcoa lease in order to encourage new competitors, or whether to leave the lease in effect until 1948 and 1949, thereby blocking new competition.

ALCOA ASKED TO CONTINUE PRODUCTION UNTIL NEW OPERATORS COULD TAKE CHARGE

The Board did not want to throw men out of work for even a short time by canceling any leases and, therefore, asked Alcoa to continue operations under a revised contract that would permit us to cancel as soon as new operators were ready.

Alcoa refused this proposal. Therefore we canceled, to free the Government's hands.

Our position in the report to Congress is that if we bring new producers in the industry, we will increase total employment and total production beyond what Alcoa would provide if it continued to maintain its dominant present position.

Therefore, it is to the interest of both the localities where the Government plants are located, and to all other sections of the country, that new producers enter the aluminum business as rapidly as possible.

Today, the amount of available aluminum on hand is already many times the total consumption in the best prewar year. Unless a very large amount of present aluminum capacity is to lie idle permanently, a new industry demand in peacetime, comparable to that of the airplane industry in wartime, must be found.

In our opinion, the only industry now capable of replacing the plane demand would be the automobile industry; and possibly because of its previous history with aluminum, but, in any case, it is our belief that that industry will never adopt aluminum in major fashion until (1) it has a price based on competition and (2) it has at least two sources of supply.

Such competition will create lower prices, therefore greater demand, therefore greater production, and therefore greater employment.

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That is the heart of the program we have submitted to Congress.
Thank you, Mr. Chairman.
Senator HAYDEN. Mr. Chairman.
Senator O'MAHONEY. Senator Hayden.

"AT WHAT POINT DOES MONOPOLY BEGIN?" SENATOR HAYDEN ASKS

Senator HAYDEN. I would like to ascertain, if I can, at just what point you think the monopoly exists. It does not exist in the production of bauxite or clay. There is no monopoly there. Does the monopoly exist, or did it prior to the war, in the plants that convert bauxite into alumina?

Mr. SYMINGTON. As I understand it, sir, the court decided that the monopoly condition existed in pig aluminum.

Senator HAYDEN. Ingot?

Mr. SYMINGTON. That is right, sir.

Senator HAYDEN. Then anything that the court has found that was prohibiting you from acting because of the monopoly conditions, applied to that segment of the industry only?

Mr. SYMINGTON. It would seem so, sir.

Senator HAYDEN. There is nothing in the law to prevent your organization from disposing of a fabricating plant to the Aluminum Co. of America, if you so desired?

Senator O'MAHONEY. May I interrupt here to say, Senator Hayden, that of course, in any industry—let's forget aluminum and Alcoa—but if in any industry one unit controls a major portion of one segment of the industry, and then acquires control of other segments of the industry in which, perhaps, there may have been no hint of monopoly in the past, nevertheless the result of that acquisition in the new field by the controlling unit would be only a step in promoting the expansion of monopoly to the whole industry.

Senator HAYDEN. I thoroughly agree with the chairman, but I am thinking about the copper industry. There was no monopoly in the production of copper. Various competing companies produced copper and normally sold it on the market, and the price of copper varied from 10 cents a pound to 25 cents a pound, according to supply and demand. Certain producers of copper, such as Anaconda, developed fabricating plants which they owned or controlled. Again, the products of those fabricating plants were sold in the open market, and I have never heard that there was any antitrust action contemplated against a copper mining company because it owned a fabricating plant.

If all the copper mines in the United States were controlled by one company, or if only one company was producing copper—if there was just one—I think the finding is correct that the metal itself had the monopoly, just as it was in the Aluminum Co. before the war.

What I am trying to find out is, as a matter of law, if the court found that the monopoly existed in the production of ingot, do you have authority, by law, to sell a fabricating plant, if you so desire? Is there any prohibition against your doing it? I am not talking about the desirability of it, but about the legal right to dispose of a fabricating plant.

Mr. SYMINGTON. I think it would depend upon the decision of the Attorney General in that case, provided the plant itself cost more than $5,000,000.

Senator HAYDEN. If it cost more than $5,000,000, then what? You must report it to Congress or obtain the approval of the Attorney General?

Mr. SYMINGTON. Obtain the approval of the Attorney General.

SECTIONS 2, 19, AND 20 OF SURPLUS PROPERTY ACT INSERTED IN RECORD

Senator O'MAHONEY. I shall ask that there be put into the record at this point sections 2, 19, and 20 of the Surplus Property Act of 1944.

(Secs. 2, 19, and 20 of the Surplus Property Act of 1944 are as follows:)

SEC. 2. The Congress hereby declares that the objectives of this Act are to facilitate and regulate the orderly disposal of surplus property so as—

(a) to assure the most effective use of such property for war purposes and the common defense;

(b) to give maximum aid in the reestablishment of a peacetime economy of free independent private enterprise, the development of the maximum of independent operators in trade, industry, and agriculture, and to stimulate full employment;

(c) to facilitate the transition of enterprises from wartime to peacetime production and of individuals from wartime to peacetime employment;

(d) to discourage monopolistic practices and to strengthen and preserve the competitive position of small business concerns in an economy of free enterprise;

(e) to foster and to render more secure family-type farming as the traditional and desirable pattern of American agriculture;

(f) to afford returning veterans an opportunity to establish themselves as proprietors of agricultural, business, and professional enterprises;

(g) to encourage and foster post-war employment opportunities;

(h) to assure the sale of surplus property in such quantities and on such terms as will discourage disposal to speculators or for speculative purposes;

(i) to establish and develop foreign markets and promote mutually advantageous economic relations between the United States and other countries by the orderly disposition of surplus property in other countries;

(j) to avoid dislocations of the domestic economy and of international economic relations;

(k) to foster the wide distribution of surplus commodities to consumers at fair prices;

(l) to effect broad and equitable distribution of surplus property;

(m) to achieve the prompt and full utilization of surplus property at fair prices to the consumer through disposal at home and abroad with due regard for the protection of free markets and competitive prices from dislocation resulting from uncontrolled dumping;

(n) to utilize normal channels of trade and commerce to the extent consistent with efficient and economic distribution and the promotion of the general objectives of this act (without discriminating against the establishment of new enterprises);

(o) to promote production, employment of labor, and utilization of the productive capacity and the natural and agricultural resources of the country;

(p) to foster the development of new independent enterprise;

(q) to prevent insofar as possible unusual and excessive profits being made out of surplus property;

(r) to dispose of surplus property as promptly as feasible without fostering monopoly or restraint of trade, or unduly disturbing the economy, or encouraging hoarding of such property, and to facilitate prompt redistribution of such property to consumers;

(s) to dispose of surplus Government-owned transportation facilities and equipment in such manner as to promote an adequate and economical national transportation system; and

(t) except as otherwise provided, to obtain for the Government, as nearly as possible, the fair value of surplus property upon its disposition.

SEC. 19. (a) The Board, in cooperation with the various disposal agencies, shall prepare and submit to the Congress within three months after enactment of this Act, a report as to each of the following classes of surplus property (not including any plant which cost the Government less than $5,000,000); (1) aluminum plants and facilities; (2) magnesium plants and facilities; (3) synthetic rubber plants and facilities; (4) chemical plants and facilities; (5) aviation gasoline plants and facilities; (6) iron and steel plants and facilities; (7) pipe lines and facilities used for transporting oil; (8) patents, processes, techniques, and inventions, except such as are necessary to the operation of the plants and facilities herein listed; (9) aircraft plants and facilities and aircraft and aircraft parts; (10) shipyards and facilities; (11) transportation facilities; and (12) radio and electrical equipment:

(A) Describing the amount, cost, and location of the property and setting forth other descriptive information relative to the use of the property;

(B) Outlining the economic problems that may be created by disposition of the property;

(C) Setting forth a plan or program for the care and handling, disposition, and use of the property consistent with the policies and objectives set forth in this Act.

(b) In the event that it is not possible within such period to prepare and submit a complete report to the Congress as to any class of property, the Board shall submit an interim report three months after the enactment of this Act, and shall submit a complete report as soon thereafter as possible. If the Board determines that it is desirable to alter or change any such plan or program or to prepare a report on any other class of property, it shall prepare in accordance with the provisions of this subsection and submit to the Congress an additional report, setting forth the altered or changed plan or program or a plan or program relating to the new class of property.

(c) Whenever the Board may deem it to be in the interest of the objectives of this Act it may authorize the disposition of any surplus property listed in classes 9 to 12, inclusive, of subsection (a) of this section. With respect to the property listed in classes 1 to 8, inclusive, no disposition shall be made or authorized until thirty days after such report (or additional report) has been made while Congress is in session, except that the Board may authorize any disposal agency to lease any such property for a term of not more than five years.

(d) The Board may authorize any disposal agency to dispose of any materials or equipment related to any surplus plant covered by this section, if such materials and equipment are not necessary for the operation of the plant in the manner for which it is designed.

(e) This section shall not apply to any Government-owned equipment, structure, or other property operated as an integral part of a privately owned plant and not capable of economic operation as a separate and independent unit.

SEC. 20. Whenever any disposal agency shall begin negotiations for the disposition to private interests of a plant or plants or other property, which cost the Government $1,000,000 or more, or of patents, processes, techniques, or inventions, irrespective of cost, the disposal agency shall promptly notify the Attorney General of the proposed disposition and the probable terms or conditions thereof. Within a reasonable time, in no event to exceed ninety days after receiving such notification, the Attorney General shall advise the Board and the disposal agency whether, in his opinion, the proposed disposition will violate the antitrust laws. Upon the request of the Attorney General, the Board or other Government agency shall furnish or cause to be furnished such information as it may possess which the Attorney General determines to be appropriate or necessary to enable him to give the advice called for by this section or to determine whether any other disposition of surplus property violates the antitrust laws. Nothing in this Act shall impair, amend, or modify the antitrust laws or limit and prevent their application to persons who buy or otherwise acquire property under the provisions of this Act. As used in this section, the term "antitrust laws" includes the Act of July 2, 1890 (ch. 647, 26 Stat. 209), as amended; the Act of October 15, 1914 (ch. 323, 38 Stat. 730), as amended: the Federal Trade Commission Act; and the Act of August 27, 1894 (ch. 349, secs. 73, 74, 28 Stat. 570), as amended.

Senator O'MAHONEY (continuing). These sections contain the language which the Surplus Property Board and the other disposal agencies must follow. They have already received their orders from Congress, and in connection with this particular point it is well to bear in mind that they have been instructed to submit a positive program—

to give maximum aid in the reestablishment of a peacetime economy of free, independent private enterprise, the development of the maximum of independent operators in trade, industry, and agriculture, and to stimulate full employment.

In other words, the Surplus Property Administration would not be carrying out the instructions of Congress unless it brought to us a suggestion, the object of which was to stimulate the development of the maximum number of independent operators. That is what we told them to do.

Now, whether or not they can do it, that may be an altogether different question. I assume that the Aluminum Co. of America may have something to say about that before these hearings are over.

MONOPOLY EXISTS IN INGOT INDUSTRY

Senator HAYDEN. Naturally, whether the Aluminum Co. of America remains an entity or whether it is broken up, you have to consider how best to dispose of these plants to accomplish the general purpose of Congress. What I was trying to get at was the legal effect. The monopoly exists in the ingot industry, and if that is the case that is where you are tied up until you dispose of this question of monopoly and production, by one agency, of the ingot, as it was before the war. You can't do anything else. But after that, there is nothing to prevent you from disposing, to the Aluminum Co. of America as a whole, or any of its integral parts if it is divided up, of any particular fabricating plant. There is nothing in the law to prevent that, as I understand.

Mr. COX. That is correct, with the condition that for any plant that cost $1,000,000 or more—not $5,000,000—we must get the approval of the Attorney General.

Senator O'MAHONEY. I might say that there is pending before the Surplus Property Subcommittee a bill amended by Senator Maybank, amending the law to require reports on plants costing a million dollars or more.

Senator REVERCOMB. I was very much interested in Mr. Symington's statement that he was reluctant to cancel the leases or the contracts of Alcoa because it would create an unemployment situation. Well, the cancellation does create an unemployment situation, does it not?

Mr. SYMINGTON. That is correct, sir.

Senator REVERCOMB. Why did you cancel at that time, and why did you not wait until a later date to do it, when you could find some other company to buy these plants? Why did you not wait?

Mr. SYMINGTON. Senator, I would rather have Mr. Husbands answer that question, or Mr. Cox.

Mr. HUSBANDS. I think probably Mr. Cox should answer the question.

Mr. COX. The reason we did that was because we were convinced if we did not concel the leases before the end of August, that we would be unable to cancel them until 1948, or in some cases until 1949.

Senator REVERCOMB. You mean that your leases were so written that you had to cancel at that time or run on to 1948 or 1949?

Mr. COX. That was our judgment.

Senator REVERCOMB. Was that the term of the contract?

Mr. COX. It arose in this way: Our right to cancel rested upon the production of the leased plants falling below a certain figure—40 percent—for a 6-month period. It had fallen below that figure for a 6-month period ending August 31. We were almost certain that that could be the situation——

Senator REVERCOMB (interposing). You based your action upon your belief that in the future there would be no falling down in production that would permit cancellation, no certainty of that?

Mr. COX. We are never certain of anything in that sense, Senator. But we were deeply, firmly persuaded that we must either cancel then or wait until 1948.

Senator REVERCOMB. And the cancellation brought about a rather extensive unemployment situation, did it not?

Mr. COX. It certainly has brought about unemployment; how extensive, I cannot answer.

Senator O'MAHONEY. Of course, that was the result of all cut-backs of the war program.

Mr. COX. Yes. Of course, as Mr. Symington said, he made some efforts to have these plants continue their operation on a temporary basis.

ONLY THREE COMPANIES ENGAGED IN CREATION OF ALUMINUM

Senator REVERCOMB. Mr. Symington, how many private companies are engaged in the creation of aluminum, beginning with the production of bauxite, the ingots, alumina, sheet aluminum—how many companies, altogether, are engaged in those various enterprises?

Mr. SYMINGTON. The three companies that are engaged in the processing of aluminum are Olin Industries, Reynolds, and Alcoa.

I don't think, Senator, you could say Olin was a completely integrated company. Is that correct, Mr. Husbands?

Mr. HUSBANDS. That is correct.

Mr. SYMINGTON. Would you say that Reynolds was a completely integrated company?

Mr. HUSBANDS. Yes.

Mr. SYMINGTON. I would, too.

Senator REVERCOMB. You meant that produced the ore and went through to the finished product?

Mr. SYMINTON. Yes.

Senator O'MAHONEY. We might ask the executive secretary of the Small Business Committee——

Senator REVERCOMB (interposing). I would like to have put in the record all companies that produce bauxite, all that produce ingots, all that produce alumina, and all that produce sheet metal or any part of aluminum.

Senator O'MAHONEY. How many fabricators of aluminum were there?

Mr. ANDERSON. When we sent out our first questionnaire, we had over 1,500 names of business firms in the business of light metals, most of whom were in the aluminum field.

Senator REVERCOMB. You mean 1,500 companies?

Mr. ANDERSON. Fifteen hundred companies in various types of aluminum business.

Senator REVERCOMB. I wish you would furnish for the record the names of those, and put them in here.

Mr. ANDERSON. I would be glad to do that.

Senator WHERRY. The Reynolds Co. is a completely integrated company that is a competitor of Alcoa, is it not?

Mr. SYMINGTON. I would think it was an integrated company; yes, sir.

Senator WHERRY. On your recommendation that we need more competition to lower the price—which is the third paragraph from the bottom of your report—if we had other competing companies like Reynolds—and I was deeply impressed with the competition that Reynolds was giving Alcoa, throughout all of these Small Business Committee hearings, a well-organized company—do you feel, if we had four or five or six companies, we would get a better price on aluminum than we would now?

Mr. SYMINGTON. That is a personal question?

Senator WHERRY. You may answer it any way you like.

Mr. SYMINGTON. I would say yes; the more competition, the better price you are going to get.

Senator WHERRY. That probably answers the question, but would you get any more competition, so far as price is concerned? You would get more production, but would you get any lowering of price?

Mr. SYMINGTON. It would be my opinion that you would, sir.

Senator WHERRY. What is the price of aluminum now compared to, say, 1939?

Mr. SYMINGTON. That I couldn't answer.

Senator WHERRY. Well, it is a very definite thing to consider, in establishing this policy. The price of aluminum today is cheaper than it was in 1939.

Mr. SYMINGTON. I would think so. They have had one customer, and an awfully heavy volume.

Senator WHERRY. That is the United States.

Mr. SYMINGTON. Yes, sir.

Senator REVERCOMB. Will you let me interrupt, Senator?

Senator WHERRY. Yes.

Senator REVERCOMB. Would you have any reason to believe that the price would go up when aluminum has many customers and there is a great demand in the postwar world for that product?

Mr. SYMINGTON. Well, Senator, it would seem that in normal peace times you would have less volume and more sales expense than you would selling the Government.

Senator WHERRY. Would it cost you more money to produce it then?

Mr. SYMINGTON. I would think so.

Senator WHERRY. Then how would you get a lower price?

Mr. SYMINGTON. There are other aspects of the price situation I would like to present to you. I don't know the aluminum situation, but let's take nickel. The price of nickel never varied during the depression and prosperity, and if you have one company I think the chances are there is more of a chance to control the price than if you had ten.

Senator WHERRY. Competitively, I will agree that the more competitors you get, possibly the more chances you have to shop around. But after all, the use of aluminum will govern, to some extent, its

price. My theory is that if you make the statement that you are going to get lower prices because you have more competition, that does not cover the field. So many other factors come into it. And I think you have got two competing companies. They are producing all the aluminum that they can take today, more than they can take. So where are you going to be if you subsidize or put in independent operators, where you guarantee them against loss? Where are we going to come out in the end?

Mr. SYMINGTON. You only asked my opinion as to whether, the more competitors you have, the better price you get; and that opinion, from the standpoint of my business experience, still stands.

However, we won't argue about the third competitor if we can get the second, based on what we understand we are supposed to do under the act.

Senator REVERCOMB. Mr. Symington, will you produce, with the present facilities for the production of aluminum, more aluminum than the market will consume?

Mr. SYMINGTON. I would like to answer that a little indirectly, Senator, if I may.

The largest volume of aluminum in any prewar year was in 1939, and 330,000,000 pounds were used in 1939; and today the total capacity runs into billions.

Senator REVERCOMB. Then with that great production, and with the facilities for that great production, there is not much chance of the price going up, is there? Haven't you got an almost glutted market?

Mr. SYMINGTON. I would say that the question of whether the price goes up would be primarily whether the price was controlled, and not the productive capacity of the industry, sir.

"CONCENTRATION OF CONTROL OVER PRODUCTION HAS INEVITABLY BEEN FOLLOWED BY INCREASING OF PRICE," SAYS SENATOR O'MAHONEY

Senator O'MAHONEY. The innumerable investigations into economic problems which have been held by committees of Congress, and in the courts and elsewhere, throughout our economic history, have, I think, demonstrated beyond any possibility of rational contradiction that concentration of control over production has been inevitably followed by increase of price. The hallmark of monopoly is the restriction of production in order to maintain price.

I think Senator Revercomb's question points up the very central problem with which we are confronted in the disposal of war plants. We were able to build these plants by Government investment because we needed the output in order to win the war. Now, unless we develop another market, we will have to padlock them; and if we padlock them, then we must expect to endure a reduction in the standard of living in America.

It seems to me to be clear beyond any possibility of doubt that if we are going to have a prosperous business economy, we have got to have a market; and the only way we can get a market is by promoting consumption, and not by turning back to the old system of monopolistic controls by which production has been maintained at such a point as to enable the producer in control to get the price they want.

Senator REVERCOMB. I will comment, Mr. Chairman, that with the known facilites here for the production of aluminum, there is not much danger of there being a shortage of aluminum in this country.

Senator O'MAHONEY. The Government expanded the production of aluminum by from five to seven times, by this public investment. That is why we have this tremendous amount. Unless we find ways and means of using it, of course we are going to relapse.

Personally, I think that in the States and in the municipalities and homes of this land, there is a great untapped market which will use the entire capacity of not only the aluminum industry, but the steel industry, the petroleum industry, and all the other industries. America has learned how to produce, we have demonstrated that in the war. What we have got to learn now is how to consume. That is to say, how to enable the masses of the people to have a better share in the great productive capacity.

Senator WHERRY. Mr. Chairman, may I ask you a question?

Senator O'MAHONEY. Surely.

Senator WHERRY. If that is true, why aren't there plenty of independent companies that would take over these plants right now, buy them right out?

Senator O'MAHONEY. Because of the great hazard of investing money in a great industry. Private capital hesitates to invest. And I think one of our most important steps in promoting reconversion is to devise ways and means of stimulating the investment of private capital because if we don't do that we will have to depend, as we did in the way, upon the investment of deficit dollars out of the Government Treasury.

Senator WHERRY. But isn't the real reason the fact that some of these independent concerns that might buy are apprehensive as to what the Government will do to them when they get into the business, just as we are doing now with Reynolds and Alcoa? Isn't there some apprehension there as to investing venture capital into this business?

Senator O'MAHONEY. Nobody except Congress can determine what shall be done, and the latest pronouncement of Congress is contained in this Surplus Property Act. I don't know of anybody in Congress who is proposing that we repeal the antitrust laws.

Senator WHERRY. That isn't the point that we are making.

Senator O'MAHONEY. That is what businessmen say they are afraid of, the enforcement of the antitrust laws.

Senator MCCLELLAN. I want to get back, Mr. Symington, to this question of canceling the leases. As I understand it, you were led to the conclusion to cancel by reason of the fact that for a period of 6 months the production had only been about 40 percent of capacity at the Hurricane Creek plant; is that correct?

Mr. SYMINGTON. I think it was that the production had not been 40 percent. I would rather have Mr. Cox answer that.

Mr. COX. As I recollect that situation I would like to——

ALCOA "NOT INTERESTED" IN OPERATION OF PLANTS ON EXPERIMENTAL OR TEMPORARY BASIS

Senator MCCLELLAN (interposing). I want to get at just why there was a cancellation at this particular time without having first ascertained what you could do with respect to keeping the plants in opera-

tion during this interim time. In other words, our plants are shut down, our men are out of work. The whole thing is disintegrating down there in Arkansas. Now, I think there has been some failure somewhere. I am not saying that it is on the part of the Surplus Property Disposal Board; it may be on the part of Alcoa; I don't know. But there should have been some way to have handled this to have kept the plant in operation and kept the men at work. Now, that is what I want to determine. As I understand it, by reason of the plant not having been in production to exceed 40 percent of capacity for a period of 6 months, under the provisions of the lease you had the right to cancel; is that correct?

Mr. Cox. That is correct. Mr. Husbands, may I ask if that was the relationship figure between the production in the leased plants and in their own plants, that 40 percent figure?

Mr. HUSBANDS. That is right.

Senator O'MAHONEY. Isn't it a fact that RFC was willing to have temporary operation?

Mr. HUSBANDS. That is correct, yes, sir.

Senator O'MAHONEY. In other words, Alcoa was not interested in continuing operation upon an experimental or temporary basis?

Mr. HUSBANDS. The offer made to Alcoa was that the lease would be extended for a year with the right to cancel on 60 days' notice. But I think our correspondence also told Alcoa that we would be glad to discuss that with them. But they came back with a letter and told us that they wanted to cancel, and I think they also stated that a 60-day notice was too short for them.

Senator MCCLELLAN. Let me ask you this question. You testified that that was said after you gave notice of cancellation; but you didn't discuss it with them prior to that time, did you? In other words, you gave notice of cancellation and after giving that notice then said that you were willing to discuss it?

Mr. HUSBANDS. That was in the same letter.

Senator MCCLELLAN. Yes; but that had not been discussed in an attempt to arrive at a solution, before you gave them notice of cancellation, had it?

(Discussion off the record.)

Senator O'MAHONEY. I want to make this announcement. The reporter requests me to say that not all of the appearance slips have been handed to him. If there are any persons here who have entered an appearance, who expect to participate and who have not handed their names to the reporter, please do so now.

The committee will now stand in recess until 10 o'clock tomorrow morning.

(Whereupon, at 12:50 p. m., the committee recessed until Tuesday morning, October 16, 1945, at 10 a. m.)

(By direction of Senator Murray, chairman, Special Committee to Study Problems of American Small Business, the following correspondence is inserted at this place in the record:)

WESTERN STATE COUNCIL,
October 12, 1945.

HON. JAMES E. MURRAY,
Senate Office Building, Washington, D. C.

DEAR SENATOR MURRAY: The directors of this council, at its regular meeting at Salt Lake City, Utah, October 8, adopted a resolution on air transportation and a report from the light metals committee, copies of which are enclosed.

Your support of these items that are of special interest to the members of this council will be appreciated.

We will welcome your comment and recommendations.

Very truly yours,

WESTERN STATES COUNCIL,
F. W. MATHIAS,
Secretary-Treasurer.

RESOLUTION

Resolved, That the board of directors of the Western States Council approve the following five-point program for the improvement and development of air transportation in the 11 Western States:

1. Approval and support of the air route through the Mountain States via Great Falls to Edmonton and Alaska;
2. Approval and support of air transportation in Alaska which would give the Territory access to and from air gateways at Seattle, Great Falls, and Minneapolis-St. Paul;
3. Support and approval of the oriental route through the Seattle-Tacoma gateway to Alaska and across the North Pacific to the Orient;
4. Approval and support of the trans-Pacific central route with terminals at San Francisco and Los Angeles;
5. Approval and support of local air service between California points and Hawaii and between Pacific Northwest points and Hawaii; and be it further

Resolved, That copies of this resolution be forwarded to the Civil Aeronautics Board at Washington,, D. C., and to members of the congressional delegations representing the 11 Western States.

Adopted this 8th day of October 1945 at Salt Lake City, Utah.

WESTERN STATES COUNCIL,
CHRISTY THOMAS,
President.

Attest:

F. W. MATHIAS, *Secretary.*

REPORT TO THE BOARD OF DIRECTORS OF THE WESTERN STATES COUNCIL

At a meeting of the light-metals committee of the Western States Council held in Salt Lake City on October 8, it was the unanimous opinion of this committee that the delay in disposing of light-metals plants is detrimental to the interests of business and labor in the western area of the United States. We hereby respectfully request immediate action in the consummation of disposal of the various light-metal plants in the West to private business. It is our further considered opinion that unless sale or lease of these plants is made in the very near future that the available labor supply for operation will be dispersed and create further delays in the much needed operation of these plants and jeopordize the eventual value of the Government investment. We now understand the Surplus Property Board and the Reconstruction Finance Corporation have before them a proposal for lease or sale of certain key plants by a qualified light-metals operator. We emphatically urge conclusion of negotiations with this or other equally qualified operator within 30 days.

The committee accepts the report of the Surplus Property Administration and endorses its recommendations, including those relating to studies to be pursued relative to power costs, freight rates, and tariffs. In acknowledging the necessity for competition in the light-metals industry the committee wishes to express its full appreciation for the efforts put forward by the Aluminum Co. of America during the recent war and to express the earnest hope that this company will continue in the operation and enlargement of its business. It is recommended by this committee that negotiations with any light-metals company that may be under consideration for leasing or purchasing be fully and promptly investigated as to financial and management ability to carry forward the operation of these plants on a continuing basis. We fully concur in the Surplus Property Administration recommendation that bidders be given preference in accordance with competence and prospective ability to survive.

We recommend to the directors of the Western States Council that a copy of this report be placed in the hands of all interested metals companies, interested

Government officials, and Members of the Congress from the 11 Western States and to constituent members of the council.

Adopted by board of directors, Western States Council, at Salt Lake City, Utah, October 8, 1945.

LIGHT METALS COMMITTEE, WESTERN STATES COUNCIL,
D. K. MACDONALD, *Chairman.*
F. W. MATHIAS, *Secretary.*

OCTOBER 23, 1945.

Mr. F. W. MATHIAS,
Secretary-Treasurer, Western State Council,
Olympia, Wash.

DEAR MR. MATHIAS: In the absence of Senator Murray, your letter from the Western States Council, transmitting the resolution of the board of directors, respecting the light-metals industry and another resolution on air-transportation development in the Western States, has come to me for attention.

The light-metals resolution is oportune, for we have just completed hearings, before the Surplus Property Subcommittee of the Senate Committee on Military Affairs, our Small Business Committee, and the Industrial Reorganization Subcommittee of the Special Committee on Postwar Economic Policy and Planning, on disposal policies. Your resolution will be inserted in the record and will be printed in the final report of these hearings.

I am sure Senator Murray will take proper cognizance of your air-transportation resolution.

With all good wishes, I remain,
Very cordially yours,

DEWEY ANDERSON,
Executive Secretary.

(On request of Senator Revercomb, the following letter addressed to Mr. Stuart Symington, Surplus Property Administrator, by L. M. Brile, president, Fairmont Aluminum Co., Fairmont, W. Va., is inserted at this place in the record:)

FAIRMONT ALUMINUM CO.,
Fairmont, W. Va., October 22, 1945.

Mr. W. STUART SYMINGTON,
Surplus Property Administrator,
Washington, D. C.

DEAR SIR: We have read very carefully the report of the Surplus Property Board to the Congress, dated September 21, 1945, on aluminum plants and facilities. We are deeply concerned with that part of the report which proposes, in effect, a subsidy program which applies to practically every phase of the aluminum manufacture and distribution. It is the purpose of this letter to protest against the putting into effect of any such subsidy program which we believe would be dangerous to the economy of the United States, and especially dangerous to the entire aluminum industry, including all independents now operating in the aluminum industry, except those who are the beneficiaries of these subsidies. It would open the way to demands for subsidies in other industries and once started, would have the most serious effect upon the free enterprise system in America and upon its free economy.

You call attention on page 26 of your report to section 2 of the Surplus Property Act, which provides among other objectives, "to give maximum aid in the reestablishment of a peacetime economy of free independent private enterprise, the development of the maximum of independent operators in trade, industry, and agriculture." Granting of any such subsidies, as proposed in your report, would destroy peacetime economy of free independent private enterprise rather than encourage it, and would retard the development of the maximum of independent operators in trade and industry, instead of promoting it. We wish to go on record with you as being unequivocally opposed to the granting of Government subsidies in industry on any theory. The principles of democracy are based upon equal opportunities and equal justice to all. For the Government, by any process, to pick out a single individual operator in industry

and to grant him a subsidy over his competitors, and to provide that if there is any loss the Government will absorb or share in it, strikes at the very fundamentals of the principle of equal opportunity of justice and of democracy.

We hold no brief for the Aluminum Co. of America, or for any other concern in the aluminum industry. Neither are we motivated by selfish interest in the position that we take. It is true that we believe that the establishment of subsidies, such as proposed by you, would eventually destroy our company along with other independent aluminum companies, and even the Aluminum Co. of America. But it is not for that reason that we feel impelled to protest and object to the program proposed by you. To destroy us in a relatively small and insignificant thing compared to destroying the principle of democracy, the principle of equal treatment to all, and of equal opportunity in America. Naturally we will fight to protect our own business which was built up against severe competition and without Government subsidy or help of any kind, as all business should be. But we will fight even more to retain in America the free enterprise system and the right of industry in America to be free of unfair competition on the part of the Government, or of the Government providing subsidies to create unfair competition.

We do not go into the question at all as to whether there ought to be more competition in the production of aluminum pig and other aluminum fabrications. If this competition can be developed legitimately with private capital, that is one thing; but for it to be developed under paternalistic subsidies and protection of the United States Government, is quite another thing. We maintain that the aluminum industry would be far better off without more competition than it would be with more competition developed by any such pernicious plan as you propose in your report.

We now make specific reference to some of the points urged in your report as a program of the Surplus Property Board in support of Government subsidies: We refer first, to the Government guaranty against losses to which reference has been made earlier in this letter. The proposal is, as we understand it, to give an operator of a Government-subsidized plant 15 percent of the net profits, but will require the Reconstruction Finance Corporation (in other words the Government and the taxpayers of the United States) to stand all losses. We agree with the testimony that has been made before the Joint Senate Committee Investigating the Matter of Disposal of Surplus Property Aluminum Plants, that such a proposal "is an invitation to reckless, extravagant, and calculated mismangement." Under such a program an operator could spend money recklessly for sales expense, advertising, capturing of markets, and other practices which his competitors could not possibly meet, knowing well that if he suffered any losses, the Reconstruction Finance Corporation bore them. The taxpayers paid for his recklessness. And this is true, even though the Reconstruction Finance Corporation did reserve the right "to review and approve the prices at which the metal is sold, top salaries, and extraordinary expenses." This would virtually place the Reconstruction Finance Corporation, an agent of the Government, in a position to dictate the price at which aluminum was sold and could result in the Reconstruction Finance Corporation putting all competitors of the "favored son" or beneficiaries of he subsidy, out of business. We furthermore call your attention to the fact that such a subsidy would enable the favored operator to raid other operators in the industry, of their keymen without regard to the cost of it, because the Reconstruction Finance Corporation would pay. Some competition has already been built up during the war period, by raiding the organization of other operators, and the granting of a subsidy such as is proposed, would make this practice feasible and possible to a continuing extent.

You propose, further, to give the lessee of Government plants an option to purchase *based upon the earnings record of the plant during the subsidized lease.* [Italics, are, of course, ours.] This would permit a lessee of these plants to deliberately incur losses so that he hight eventually buy the plants as cheaply as possible.

As to the subsidy proposed in the Government procurement of bauxite, we will not go into special arguments against it except to stand on the premise that the principle of subsidy is all wrong in a democracy and the subsidy applied to the procurement of bauxite is as indefensible as the subsidies applies to the purchase of plants, or guaranty against losses. The same thing applies to the proposal to subsidize the manufacture of alumina at prices equal to, or lower than the Aluminum Co. of America's cost.

It is our studied opinion that, contrary to what you say in the report, the advent of new producers in the industry through Government plant disposal under the subsidy plan proposed by you, would decrease national security instead of increasing it, and would decrease employment in the aluminum industry rather than increase it, and would create a confusion in the industry. It would play havoc with independent operators, as well as the principal producers. It would be handing over on a silver platter the aluminum industry, that has been built up through long effort and through years of energy and devotion to it, to some newcomer protected from the rains of adversity by a Government umbrella.

Respectfully submitted.

FAIRMONT ALUMINUM CO.,
L. M. BRILE, *President.*

ALUMINUM PLANT DISPOSAL

TUESDAY, OCTOBER 16, 1945

JOINT HEARING OF THE SUBCOMMITTEE ON SURPLUS PROPERTY DISPOSAL OF THE COMMITTEE ON MILITARY AFFAIRS, THE SPECIAL COMMITTEE TO STUDY AND SURVEY PROBLEMS OF SMALL BUSINESS ENTERPRISES, AND THE INDUSTRIAL REORGANIZATION SUBCOMMITTEE OF THE SPECIAL COMMITTEE ON POSTWAR ECONOMIC POLICY AND PLANNING

UNITED STATES SENATE,
Washington, D. C.

The committees met, pursuant to recess, at 10 a. m., in the caucus room, Senate Office Building, Senator Joseph C. O'Mahoney (chairman of the Subcommittee on Surplus Property Disposal) presiding.

Present: Senators O'Mahoney (chairman), Murray, Stewart, Hill, Wherry, and Revercomb.

Also present: Senators McClellan, Maybank, Mitchell, Robertson, and Cordon; Congressman Norrell.

Kurt Borchardt, counsel, Surplus Property Subcommittee of the Committee on Military Affairs; Dewey Anderson, executive secretary, Senate Small Business Committee; C. E. Childe, consultant; and Thomas J. McBreen, Jr., chief of information, Senate Small Business Committee.

Appearances in addition to those noted in hearing of Monday, October 15, 1945:

On behalf of governmental agencies: Wendell Berge, Assistant Attorney General, Antitrust Division; Leland Olds, Acting Chairman, Federal Power Commission; and John D. Goodloe, general counsel, Reconstruction Finance Corporation.

On behalf of industry: Arnold Troy, of Eastern Metals Corp.

Senator O'MAHONEY. The committee will come to order.

This morning I notice some new appearances which were not recorded yesterday: John D. Goodloe, general counsel of the Reconstruction Finance Corporation; Wendell Berge, Assistant Attorney General, head of the Antitrust Division; and Leland Olds, Vice Chairman of the Federal Power Commission.

Is there anybody else from the Government here this morning? How about industry? I am advised that Arnold Troy, of Eastern Metals Corp. is present.

Mr. Symington, will you take the stand?

STATEMENT OF W. STUART SYMINGTON, SURPLUS PROPERTY ADMINISTRATOR—Resumed

CANCELLATION OF LEASES IN RELATION TO EMPLOYMENT

Senator O'MAHONEY. Mr. Symington, Senator Revercomb was directing some questions to you yesterday at the time of our recess. Do you care to resume, Senator?

Senator REVERCOMB. Yes, Mr. Chairman.

Mr. Symington, when we recessed we were discussing the termination of the leases of the Aluminum Co. of America.

What is in the contract of lease providing for termination or cancellation; what are the terms? Do you have that lease here?

Mr. SYMINGTON. No, Senator; but I am sure that the RFC people would know the terms of that lease, Mr. Husbands or Mr. Goodloe; and I think our counsel will, with respect to rights of cancellation.

Senator REVERCOMB. May I direct that question to counsel at this time?

Mr. COX. I will give you a general answer, Senator, on the understanding that if you are going to go into details, I would like to have Mr. Goodloe's assistance.

Senator REVERCOMB. We will want it in full later, but I will take the general answer now and the details later.

Mr. COX. The contracts provided that the lessor could terminate on 60 days' notice if production in the leased smelting plants averaged less than 40 percent of the aggregate productive capacity of all leased plants, leased smelting plants, for a 6-month period. That is a general statement of the cancellation clause under which we acted.

Senator REVERCOMB. Yes. What was the date of the cancellation letter?

Mr. COX. The leases were canceled as of the end of August, this year.

Senator REVERCOMB. Was that the date of the notice of cancellation?

Mr. COX. The letter was dated August 30, 1945.

Senator REVERCOMB. At that time the fighting part of the war had come to an end. What reason did you have to believe that there would be a greater demand for aluminum with the war at an end? Why wouldn't that shortage in percentage of production continue?

Mr. COX. I am sorry, Senator, I am not sure I quite understand the question.

Senator REVERCOMB. Yesterday, you said that you gave the notice when you did because you believed it was probable that in the future there would be no falling down below 40 percent, and you would therefore have to wait 6 months to give a notice of cancellation, and that the leases would continue on until 1948.

When you gave that notice, the fighting part of this war had ended, and naturally there would be less demand for aluminum.

Mr. COX. I understand your question now.

Senator REVERCOMB. Tell me why, in view of that, you gave the notice of cancellation when you did? In other words, why didn't you let these plants continue to operate and give people employment in this country?

Mr. COX. Senator, I think that I will have to answer that question in terms of the advice that I gave my clients about their rights, and not in terms of what should or should not be done, but I think the answer will deal with the points that you raised.

The last question I had to answer was whether I could tell the Surplus Property Administration that the time would come again when they would have the right to cancel under these contracts without the consent of Alcoa. The reason I did not answer that question in the affirmative was because it was within Alcoa's power, from that time on, so to allocate production between their own plants and leased plants so that no matter how low the total production fell, the productive capacity of the leased plants was always 40 percent of the total productive capacity of those plants. In other words, they could have spread the cuts over the entire facilities, all of their own facilities as well as the Government's facilities, and in that way maintain the Government's facilities at 40 percent or above.

Senator REVERCOMB. You mean that they would have had the power to do that?

Mr. COX. That is correct.

Senator REVERCOMB. Was it reasonable that they would have operated the Government plants up to 40 percent and cut their others down or closed them, in order to keep these leases alive? Do you think that is reasonable?

Mr. COX. Senator, I would prefer not to answer that question, because I was giving advice on the basis of what their rights were.

Senator REVERCOMB. What could be done?

Mr. COX. Yes, sir.

Senator REVERCOMB. Who made the decision?

Mr. SYMINGTON. With respect to the cancellation of the leases?

Senator REVERCOMB: Yes.

Mr. SYMINGTON. The Board did.

Senator REVERCOMB. I believe that is all.

Senator O'MAHONEY. Are there any other questions? If not, we are very much obliged, Mr. Symington. Do you care to add anything to your statement of yesterday?

Mr. SYMINGTON. Mr. Chairman, if it meets with your pleasure, sir, I would like to place in the record a letter written by me to the Attorney General under date of September 7, and a letter in reply dated September 11, regarding the position of the Board with respect to the Government-owned Alcoa-leased plants.

Senator O'MAHONEY. Do these letters add anything new to the record? I am asking that merely to determine whether or not they should be summarized now, read for the record, or just inserted.

Mr. COX. They are referred to in the report, but the text is not set forth in full.

Senator O'MAHONEY. Then they are summarized in the report?

Mr. SYMINGTON. Yes, sir.

Senator O'MAHONEY. They may be submitted for the record at this point. There may also be inserted at this point a statement of the result of operations from 1942 through June 30, 1945, of the Troutdale, Spokane, and Jones Mills aluminum-reduction plants and Hurricane Creek alumina plant.

79912—45——4

(The letters and statement referred to are as follows:)

SEPTEMBER 7, 1945.

The honorable, the ATTORNEY GENERAL,
Washington, D. C.

MY DEAR MR. ATTORNEY GENERAL: On August 3, 1944, the Attorney General wrote to the Surplus Property Administrator calling attention to the pending antitrust suit by the Department of Justice against the Aluminum Co. of America. This letter stated that the Department of Justice "would deem it a further violation of the Sherman Act for the Aluminum Co., or any individual or organization in which it is interested, to obtain any further interest in any of the Defense Plant Corporation plants and particularly during the pendency of the present case." The Attorney General stated that he believed that no agency of the Government "should take any steps looking toward the granting to the Aluminum Co., or to any individual or organization in which it is interested, any further interest in any such plants, at least until the pending suit shall have been finally determined."

The Surplus Property Administrator, in his answer of August 14, stated "no action of the type you refer to will be taken without full consultation with your department."

At the time that the Attorney General's letter was written to the Surplus Property Administrator, the Government's suit against the Aluminum Co. of America was on appeal before the United States Circuit Court of Appeals for the Second Circuit. I write now to inquire whether after the determination of that appeal, it is still the view of the Department of Justice that no Government-owned aluminum plants shall be disposed of either by sale to the Aluminum Co. or by extension of existing leases in such a manner as to continue the Aluminum Co.'s control subsequent to the termination of the war emergency.

Very truly yours,

W. STUART SYMINGTON,
Chairman.

OFFICE OF THE ATTORNEY GENERAL,
Washington, D. C., September 11, 1945.

Hon. W. STUART SYMINGTON,
Chairman, Surplus Property Board, Washington, D. C.

MY DEAR MR CHAIRMAN: I have your letter in which you inquire as to the legality, from the standpoint of the antitrust laws, of the disposal of any Government-owned aluminum plants by sale or lease to the Aluminum Co. in such a manner as to continue Aluminum Co.'s control subsequent to the termination of the war emergency.

On March 12, 1945, the special court, sitting as the final court of appeal for the antitrust aluminum case, held that at the time the suit was brought, the Aluminum Co. had an illegal monopoly over the aluminum ingot market. The court, however, deferred judgment as to what form of relief might be required. It pointed out that prior to the disposal of the Government-owned aluminum plants after the war, no one could forecast what would be the competitive situation in the industry. The court stated that the Government might "be able to transfer all" of the Government-owned plants "to persons who can effectively compete with Alcoa; it may be able to transfer some; conceivably, it may be unable to dispose of any."

Furthermore, the court regarded the objectives and powers provided in the Surplus Property Act of 1944 as an additional reason for delaying its own determination of what, if any, kind of dissolution might be required of Alcoa.

It is my judgment that, as a general rule, the disposal of any Government-owned aluminum plant to Alcoa would be violative of the antitrust laws, unless such disposal were accompanied by suitable divestiture of properties now owned by Alcoa to the extent necessary to create competition. As you know, it is not the practice of the Department to give general opinions on disposal matters anent a particular disposal program of specified plants. The position of Alcoa, however, is unique in that court action as to divestiture has been expressly deferred in order that the court may determine what effect Government disposals have upon competition in this industry. Therefore, any Government disposal which does not increase competitive conditions will make more necessary the ultimate dissolution or rearrangement of Alcoa.

The opinion of the court implicitly recognizes that disposals to Alcoa may be possible if sufficiently compensated for by the divestiture from Alcoa of other properties. As the court stated:

"* * * Conceivably Alcoa might be left as it was; perhaps it might have to be dissolved; if dissolved, the dissolution would depend upon how the other plants were distributed. If the agency should find it wise to proceed in this way, it may succeed in inducing Alcoa to accept the place assigned to it, particularly if the plan has not been prepared ex parte. If it does not succeed, then, but then only, will it be appropriate for the district court to act. We do not, of course, mean that in deciding whether to dissolve Alcoa or how to do it, that court must be governed by any plan which the agency may have devised, if it does devise one. But, plan or no plan, it must wait until it learns what the agency has in fact done. Moreover, if the agency does form a plan, it will have been an attempt to realize the same objectives for which the court itself must strive; and the court may well feel that it should accord to the agency's plan that presumptive validity which courts are properly coming more and more to recognize in the decisions of specialized tribunals. Nothing which we now say ought in any measure to limit the discretion of the agency to proceed in this way."

I shall, of course, be glad to consider further the specific application of the antitrust laws to the disposal of any particular aluminum plants.

Sincerely yours,

TOM CLARK, *Attorney General.*

Result of operations from 1942 (beginning) through June 30, 1945, of the Troutdale, Spokane, and Jones Mills aluminum-reduction plants and Hurricane Creek alumina plant

	Pounds produced	RFC profit
Troutdale	262, 104, 000	$4, 924, 000
Meade	461, 358, 000	10, 066, 000
Jones Mills	346, 540. 000	[1] 4, 974, 000
	1, 070, 002, 000	19, 964, 000
Hurricane Creek	2, 425, 000, 000	21, 220, 000

[1] This, after paying $4,738,000 excess power cost above 3 mills.

Senator REVERCOMB. Mr. Chairman, may I request that at this point in the record there be inserted the contract of lease between RFC and Alcoa on the leasing of plants, with particular reference to the cancellation clause?

Senator O'MAHONEY. May I suggest, Senator, it may be better, from the point of view of the printed hearings, if that were to appear at the close of today's proceedings rather than in the text at this point.

Senator REVERCOMB. Just so it may be included in the record before us, as an appendix or in the body, as you wish.

Senator O'MAHONEY. That may be done.

(The termination provisions of the agreement of lease, entered into by the Defense Plant Corporation and Alcoa, appear in this record, p. 121.)

Mr. TROY. What reason was given by Alcoa for the cessation of activities in these plants on a yearly basis upon a 60-day-cancellation-clause basis? What was their finite reason for that? They had the opportunity of continuing operating on a yearly basis on a 60-day cancellation clause, which was offered to them by the Government, as I recollect. I wondered what their definite answer to that was?

Mr. SYMINGTON. With respect to that question, Mr. Chairman, I think Mr. Husbands should answer it.

Mr. HUSBANDS. I didn't hear the question.

Mr. TROY. The question was, What was the finite reason given by Alcoa for not wishing to continue to operate the plants on a 60-day-cancellation-clause-agreement as was offered to them by your own RFC on a yearly contract basis?

Mr. HUSBANDS. I think that is covered in Alcoa's reply which is in the report here. I have the impression that they say that 60 days' notice was too short a period.

Mr. TROY. Would they have considered 90 days, then?

Mr. HUSBANDS. I really couldn't say.

Senator O'MAHONEY. Mr. Wilson, do you care to give an answer to that question?

IMPOSSIBLE TO OPERATE PLANT AGAINST ANY HAZARD SUCH AS 60-DAY CANCELLATION CLAUSE

Mr. WILSON. Yes; and I think I will cover this point when I appear before the committee, Senator. But there is no reason why we shouldn't make it clear now, that any 60-, 90-, or 120-day cancellation would not have permitted us to program the operations of these plants, the obtaining of the raw-material supplies, labor, as well as the operations and sale of the product. It is just impossible to operate plants of this character on any hazard of a 60-, 90-, or 120-day withdrawal of the plant from operation.

Mr. ANDERSON. May I ask a question, Mr. Chairman?

Senator O'MAHONEY. Yes; Dr. Anderson.

Mr. ANDERSON. Mr. Wilson, in the proposal of RFC that you continue operations on a 60-day-cancellation basis, weren't the provisions of the contracts which had been in force up to that moment still to prevail, and you would be fully indemnified for any losses that might occur because of cancellation?

Mr. WILSON. I am not sure I get the question, Dr. Anderson.

Mr. ANDERSON. I understand the proposal that RFC made to you people was that you continue operations on a 60-day-cancellation basis. My question then is whether, if you had done so, wouldn't the other provisions of the then existing contracts have been in force and you would have been fully indemnified had you sustained any losses as a result of cancellation?

Mr. WILSON. I think the answer to that is "No."

Mr. ANDERSON. I wonder if Mr. Husbands has the answer?

Mr. HUSBANDS. That question is pretty quick. Under our contract, as you know, the RFC was required to stand all losses of operation, if any; and your question is, Were we to terminate the contract and as a result there was a loss, would the RFC stand it?

Mr. ANDERSON. Right.

Mr. HUSBANDS. Without a detailed analysis of the question, it occurs to me that the RFC would stand that loss.

Senator O'MAHONEY. It occurs to the Chairman that perhaps we are getting two subjects a little mixed at this moment. Mr. Symington was here to testify about the report of the Surplus Property Administration with respect to the disposal of these plants. The details of what has transpired in the past can probably better be covered

when Mr. Husbands comes to the stand and later when Mr. Wilson, for the Aluminum Co. of America undertakes to give the picture.

Yesterday, as we were closing, Senator McClellan was also directing some questions to Mr. Symington. I observe the Senator here now.

Do you care to ask any questions, Senator?

Senator MCCLELLAN. I would like to resume, Mr. Chairman.

Senator O'MAHONEY. Very well.

Senator MCCLELLAN. Mr. Symington, along the line of questioning yesterday, and it somewhat ties in with the questions that have just been asked regarding the cancellation of this contract, what I wanted to determine was this: Prior to the time that you wrote the letter notifying them of cancellation or termination of the contract, did your office or Mr. Husbands' office have any discussion with Alcoa, prior to the issuance of that letter, with a view to determining whether any satisfactory arrangements could be worked out to operate the plants during the interim?

Mr. SYMINGTON. Yes, Senator. We discussed this matter with the Aluminum Co. of America shortly before the letter was written.

Senator MCCLELLAN. At that time did you discuss with them the possibility of working out some satisfactory arrangement so that the plants might be kept in operation?

Mr. SYMINGTON. Now we get back into the question of the actual negotiation or trade, which would be the RFC, sir. But it is my recollection that that was discussed with them, and that they decided that they did not want to go ahead with the lease. On, I think it was Monday, the 27th of August, some of us met with the head of the aluminum corporation and told him that because the figures had just been compiled to show that we were justified in canceling the lease, and if we didn't do it at that time we could not do it later, therefore, we had to do it; nevertheless, we would be glad to sit down with him after the letter was written and discuss how we could keep the plants going.

OPERATION OF PLANTS TO PREVENT UNEMPLOYMENT COULD BE ONLY BY EXECUTIVE BRANCH AFTER ACTION BY CONGRESS

Senator O'MAHONEY. Pardon me, Senator. I was just about to remark that it strikes the chair that the problem before the RFC, and before the Surplus Property Board, was clearly defined by the statutes under which they were operating. The Defense Plant Corporation was authorized to build plants and contract for their operation solely for the purpose of producing aluminum for purposes of war, and the Surplus Property Board was under instructions from the Congress to work out a program for the disposal of plants which were no longer necessary for the production of material for war. No authority, as I understand it, was conveyed in any statute to any department or agency of the Government to make contracts for continuing employment. In other words, it would have been altogether beyond the legal powers of RFC or of the Surplus Property Administration to make contracts with Alcoa or anybody else to operate plants to produce materials no longer needed for the war, and the production of which could be justified only upon the ground that they should be operated for the purpose of making work, making employment. It strikes the chair that if it

should be the policy of Congress to authorize any agency of the Government to run these plants so as to prevent unemployment, that could be done by the executive arm of the Government only after Congress had passed a statute to that effect.

Senator McCLELLAN. Do I understand the chairman, then, to state that under his interpretation of the law, the RFC or the Suplus Property Board, then, had no authority to make the offer even to permit them to continue to operate on a 60-day basis?

Senator O'MAHONEY. No; I——

Senator McCLELLAN. They either had the authority or they did not have it. Are you contending they did not even have the authority to make the 60-day offer?

Senator O'MAHONEY. No; I think that authority is clear in the statute.

Senator McCLELLAN. If they had authority to make it on a 60-day basis, they certainly had authority to make it a 6-month basis.

Senator O'MAHONEY. That is a fact which can be developed from a detailed examination of the contracts and the law.

Senator McCLELLAN. I didn't think there was any question about it. I didn't think they usurped any authority in offering to continue on a 60-day basis; and if they have not, then I don't know of any provision of law that would keep them from making it on a 6-month basis. That is what I was trying to determine.

Senator O'MAHONEY. Now, we are coming again to the detailed question, which I think can best be handled by the RFC when the RFC comes to the stand to tell the story of these contracts.

Senator McCLELLAN. There is one other question I wanted to pursue here.

Senator REVERCOMB. Before you start that, let me make this statement.

I am impressed with this, Mr. Chairman, in view of your statement, that there seems to be a difference of opinion or feeling about this matter between the chairman and Mr. Symington. Mr. Symington said yesterday in his testimony that he was very reluctant to cancel these contracts and close plants and throw people out of work; that he didn't want to do it. That was a consideration with him, and, I feel, a very proper one.

The point that I have been driving at is this: Why did you do it, when it was unnecessary? That is the thing that I have been trying to develop. Why not let the plants go on and operate, if you needed some of this aluminum?

Senator O'MAHONEY. Perhaps Mr. Symington ought to be permitted to answer.

Senator REVERCOMB. I think Mr. Symington has given his answer. I say that was the point of my inquiry.

Senator O'MAHONEY. Do you care to amplify it?

Mr. SYMINGTON. No, sir.

Senator McCLELLAN. Yesterday, Mr. Symington, you made reference to the fact that at Hurricane Creek, if the operation of it was continued by Alcoa, and it continued to produce alumina, while it would afford a continuing employment in that community it would bring about a corresponding reduction in employment in their other plants. I believe you made that statement yesterday, and that you

had to think in terms of employment throughout the country rather than with respect to he local community there; is that correct?

Mr. SYMINGTON. I don't think we localized it entirely to Hurricane Creek, sir. We localized it to that group of plants, not just to Hurricane Creek, as I remember it.

Senator McCLELLAN. Well, under this arrangement, certainly the Hurricane Creek plant and the laborers there at that plant have been made the full victims of the impact of such unemployment as may result from a reduction in the production of alumina.

This was what I had in mind, and whether it was taken into consideration: Assuming the plant was only operating on a 40-percent capacity, if all of their plants were operating at about 40-percent capacity then the spread of unemployment or the impact from reduction in production would have been spread generally throughout the country; whereas, now it has been localized at this particular plant. And it does seem to me that there could not have been any fairer way to have done it, from the standpoint of employment, than to have kept all the plants operating at a comparatively reduced production.

Mr. SYMINGTON. I would like to answer that in this way, sir, that there was this in support, in our opinion, of the Hurricane picture, from the standpoint of effort to obtain competition in the industry, that the Hurricane Creek plant would go down anyway.

Senator McCLELLAN. Were you told by the Reynolds Co that they would not consider taking over the plants or negotiating for them in any way until and unless Alcoa was placed entirely out of the picture and dispossesed of the plant?

Mr. SYMINGTON. I don't think we were told that, but we knew that we could not negotiate a lease for a plant if another company had a contract on it.

REASONS FOR CANCELING ALCOA CONTRACT WAS IN INTEREST OF COMPETITION IN INDUSTRY

Senator McCLELLAN. That is the real reason for your wanting to get Alcoa out of the picture at the time that cancellation was made; is that correct?

Mr. SYMINGTON. The real reason we wanted to get Alcoa out instead of waiting for 2 years to get them out was because we understood that it was our mandate to create competition in the industry, and we couldn't create it unless we had other people who were willing to bid on several plants, including Hurricane Creek.

Senator O'MAHONEY. That was the direction of the Surplus Property Act, was it not?

Mr. SYMINGTON. Yes, sir.

Senator McCLELLAN. And you did ascertain that you could not carry on negotiations for the sale or lease of the plants with others that might be interested as long as Alcoa was operating the plants?

Mr. SYMINGTON. Well, Senator, you can carry on any kind of negotiation at any time, sir, but it would seem a little theoretical to negotiate for a plant when you knew you could not consummate the negotiation.

Senator McCLELLAN. When you could not actually deliver at the time.

Mr. SYMINGTON. Yes.

Senator MCCLELLAN. Therefore, you were trying to keep from being tied up for another 2 years?

Mr. SYMINGTON. Yes.

Senator MCCLELLAN. But pending that you did offer an interim operation contract for the limited time of 60 days?

Mr. SYMINGTON. Yes, sir.

Senator MCCLELLAN. And you did not feel that you could make that cancellation provision in the interim contract longer than the 60-day period?

Mr. SYMINGTON. We would have done that if there had been any kind of a proposition made to us.

Senator MCCLELLAN. Was there any discussion with reference to that interim period of cancellation prior to the time you wrote the letter?

Mr. SYMINGTON. Yes, sir; there had been.

Senator REVERCOMB. Did you indicate that you would have made a contract with a longer cancellation period than 60 days with Alcoa?

Mr. SYMINGTON. Senator, we are getting back now into the details of the actual negotiations, so I would like for Mr. Husbands to answer that question, if you will permit me.

Mr. HUSBANDS. I was not present at any discussions just prior to the notice, or after the notice.

Senator REVERCOMB. Who was present?

Mr. HUSBANDS. I think Mr. Goodloe.

Mr. GOODLOE. I was present, and Mr. Cox.

Mr. HUSBANDS. Mr. Goodloe and Mr. Cox were present.

Senator REVERCOMB. Mr. Symington has said that they would have made a contract with a longer termination period than 60 days. I want to know if the other party who was dealing knew that they would? Did anybody advise them that they would make a contract with a longer termination period than 60 days?

Mr. GOODLOE. Yes, we discussed 60 days, 90 days, 120 days, and even 1 year.

Senator REVERCOMB. One year what; 1 year notice of termination?

Mr. GOODLOE. Yes. No such offer was made, but their reaction to a renewal lease with a termination notice of 90 days or 120 days, or even 1 year, was discussed with Mr. Hickman, counsel for Alcoa, when he came to discuss the notice of termination on September 7.

ALCOA "COULD NOT" OPERATE ON 60-DAY OR EVEN 120-DAY TERMINATION PERIOD, ALCOA REPRESENTATIVES ASSERT

Mr. HICKMAN. I am the man who was present at this conference with Mr. Goodloe. It is my recollection that this conference took place after we had been notified of the cancellation and had replied. I delivered the letter, and at the time I delivered the letter acquiescing in the cancellation, a discussion with Mr. Goodloe took place. He said then that he would be willing to take up with his people the possibility of extending the cancellation period to 90 days or even to 120, if we insisted on it. He said he had no assurance that that would be satisfactory, but he would be willing to negotiate between 60 and 120 days. I told him that I was sure that our people could not operate on a 120-day basis any more than they could on a 60-day basis. I have no recollection at all that there was ever any discussion of a 1-year cancellation.

Senator O'MAHONEY. Did you make any offer?

Mr. HICKMAN. No, this all took place after the cancellation had been served upon us and we had accepted it.

Senator O'MAHONEY. In other words, after the cancellation notice had been served upon you, the Aluminum Co. did not make any offer to continue operation under any basis?

Mr. HICKMAN. We did not.

Senator O'MAHONEY. Let me see if the chair correctly understands the facts as divorced from any ideological objective.

First, the contracts were made by Defense Plant Corporation or RFC with Aluminum Co. for the purpose of manufacturing aluminum for the war, terminating as of sometime in 1948, is that right?

Mr. HUSBANDS. At various dates. They ran for 5 years from date of completion of the various plants, but the termination would be in 1947 or 1948.

Senator O'MAHONEY. And these war contracts for the production of war materials were made by your agency for 5-year periods terminating in 1947 and 1948?

Mr. HUSBANDS. That is correct.

Senator O'MAHONEY. And the thought in making those contracts terminable at a definite time was that if the war were over and the need for such production were ended, the contracts would end; is that right?

CONTRACTS WERE TERMINATED BECAUSE "PRODUCTION DROPPED BELOW 40 PERCENT OF TOTAL"

Mr. HUSBANDS. The contracts, Senator, were for 5 years, with a provision that if production dropped below 40 percent for a period of 6 months, they could be terminated.

Senator O'MAHONEY. Did not the contracts also carry a clause that they were terminable by the Government upon notice?

Mr. HUSBANDS. No, sir.

Senator O'MAHONEY. They did not?

Mr. HUSBANDS. No, sir.

Senator O'MAHONEY. Under what authority were contracts terminated, then?

Mr. HUSBANDS. Because the production dropped below 40 percent of the total.

Senator O'MAHONEY. The dropping of the production below 40 percent of the total was due, was it not, to the rescession of demand because of the lessened demand of the war?

Mr. HUSBANDS. That is correct, sir.

Senator O'MAHONEY. So that actually, as a matter of fact this termination clause was to protect the Government against continuing operation for the production of material no longer needed?

Mr. HUSBANDS. That is correct, sir.

Senator O'MAHONEY. Then the second fact is that Congress, in passing the Surplus Property Act, instructed the Surplus Property Ad-

ministration to dispose of all war plants in such a manner as to re-establish a competitive economy; is that not correct?

Mr. SYMINGTON. That is correct, sir.

Senator REVERCOMB. May I interrupt and say that there were several purposes expressed.

Senator O'MAHONEY. Oh, yes.

Senator REVERCOMB. One was to foster free enterprise.

Senator O'MAHONEY. Surely, and one was to suppress monopoly.

Senator REVERCOMB. Right.

Senator O'MAHONEY. So that there were several objectives.

Was there anywhere, in any law or in any contract, a provision by which any arm of the Government could operate these plants for the purpose of stock-piling the product?

Mr. HUSBANDS. No, sir.

Senator O'MAHONEY. Are there any other questions?

Mr. TROY. I just wanted to point out that enhancing the value of these plants was the fact that they be kept in operation, in view of the fact that a plant in operation is much more competitive at the start than it is when it starts from scratch or behind scratch.

Senator O'MAHONEY. In other words, it would be easier to dispose of the plant if it were operating than if it were closed?

Mr. TROY. Very, very much easier.

Mr. SYMINGTON. May I add one more point?

Senator O'MAHONEY. Yes.

Mr. SYMINGTON. Perhaps some people feel that we were arbitrary in the cancellation of these leases. We felt that it was our job to get competition in the industry if we could, and we didn't see how we could do that if we agreed with Alcoa that they should keep the key plants or if we didn't try to get released from these leases so we could trade with other people.

As a result of the way the situation worked out, we couldn't see why they wouldn't have been willing to go along with us in a friendly spirit to get these plants free of these leases, especially as it looked as if the plants were not required to satisfy any demand that came after the war. If we could have gone along on that basis, we would have had the double advantage of getting the cancellation and maintaining employment, at least for a period.

Senator O'MAHONEY. Are there any other questions?

Senator MCCLELLAN. I just want to mention the purposes and objectives of the act. One of the purposes is "to encourage and foster postwar employment opportunities." That is one reason why I think they did have authority to continue the operation of these plants under lease, so as to take into account the continuation of employment opportunities in this postwar period.

Senator O'MAHONEY. Well, I think, Senator, that that was not intended to imply that the Government, at Government expense, out of the deficit, should continue to operate plants.

Senator MCCLELLAN. But these plants were not being operated at a loss to the Government.

Senator O'MAHONEY. That might have been the result if we had continued to produce.

Are there any other questions? Senator Wherry?

ALUMINUM COMPANIES DESCRIBED AS "NOT COOPERATIVE" IN MAINTAINING LEASES

Senator WHERRY. Did I understand you to say just a moment ago that if Alcoa had gone along with the Surplus Property Administration in a friendly way, the leases might have been worked out in a different way or you could have arbitrated so they could have continued operating these plants? Was that your statement?

Mr. SYMINGTON. May I restate it to be sure?

Senator WHERRY. Yes.

Mr. SYMINGTON. It seemed to us that we could have worked out these leases on a basis that would have been good business, and at the same time would have maintained the plants at least for a period; yes, sir.

Senator WHERRY. But they were not unfriendly, were they? From our former testimony I understood that Alcoa and the Reynolds people were very anxious to work out the policy. Have they been or have they not been?

Mr. SYMINGTON. I would like to withdraw the word "unfriendly," if you think it is important; but I will say they were, putting it mildly, not cooperative in maintaining the leases, as evidenced by the testimony already given.

Senator WHERRY. That was one thing I wanted to bring out. I am trying to find out if you have made every effort with Alcoa and the Reynolds people to work out the problems of the lease or the purchase of these plants? Have you offered them every opportunity to come in and talk it over with you and try to iron out a plicy that might be agreeable to the Surplus Property Administrator and these privately owned plants?

Mr. SYMINGTON. Senator, again we don't do the actual trading, but it is my impression that all the roads were open to make arrangements to go on with the business if they wanted to do it.

Senator WHERRY. Have you ever talked it over with them?

Mr. SYMINGTON. Yes, sir.

Senator WHERRY. How many times?

Mr. SYMINGTON. Are you speaking of me personally, sir?

Senator WHERRY. Yes, sir. How many times have you talked with Alcoa or Reynolds about any proposition they might have had?

Mr. SYMINGTON. I have talked with Mr. Davis once, myself.

Senator WHERRY. Who is Mr. Davis?

Mr. SYMINGTON. He is the head of the Aluminum Co.

Senator WHERRY. Did you talk to Reynolds?

Mr. SYMINGTON. I have talked to Mr. Reynolds and his people a good many times.

Senator WHERRY. What was the outcome of either one or both of the discussions with those companies, and the propositions they made?

Mr. SYMINGTON. Senator, sir, if I may say, I think Mr. Husbands could answer as to the actual trading. My conversations had to do with policy, where we pointed out to Mr. Davis that we had to cancel the leases.

Senator WHERRY. Then your visit with the aluminum people was simply to notify them that they could not continue?

Mr. SYMINGTON. Plus the fact that we had a discussion as to whether there was any way we could go ahead.

Senator WHERRY. And what did they offer to do? Anything?

Mr. SYMINGTON. A later discussion came afterward with the counsel for the Surplus Property Board and the counsel for the RFC, and you have heard the testimony with respect to that.

Senator WHERRY. So the only opportunity they have had to discuss a policy has been in decentralizing the aluminum business, and it hasn't run to the leasing or purchase of any of these plants?

Mr. SYMINGTON. Well, the discussion very definitely did go to the future leasing, provided they would lease them on the Government's terms instead of their own terms.

Senator WHERRY. Did any prospective buyers evidence any interest, either the Aluminum Co. of America or Reynolds, in purchasing some of these plants before this leasing proposition—I call it subsidy program—was initiated?

Mr. SYMINGTON. I don't think I have been in this picture long enough to answer that definitely.

Senator WHERRY. I would like to know that—whether there was any chance to dispose of these plants prior to the announced policy of the leasing provisions that were stated here yesterday. Does Mr. Husbands know that?

NO PROPOSALS TO BUY PLANTS SUBMITTED; THREE COMPANIES DISCUSSED LEASING

Mr. HUSBANDS. I think I can answer that. We have never had anyone make a proposition to buy these plants. We have discussed with three people the question of leasing the plants, other than Alcoa. Alcoa has never made the RFC a proposition to buy the plants, but I understand they wrote Mr. Symington a letter—I don't think I have ever seen the letter—in which they made certain offers to acquire certain facilities.

Senator O'MAHONEY. Mr. Husbands, these questions and answers seem to be going upon the assumption that a door has been closed. Therefore, let me ask you, when does the cancellation take effect?

Mr. HUSBANDS. November 1.

Senator O'MAHONEY. So that the cancellation has not become effective as yet?

Mr. HUSBANDS. No, sir.

Senator O'MAHONEY. The opportunity is still present, then, for Alcoa or Reynolds, or any other organization desiring to acquire these leases, to make an offer?

Mr. HUSBANDS. That is correct, sir.

Senator O'MAHONEY. Does Alcoa desire to make an offer, may I ask you, Mr. Wilson?

Mr. WILSON. I think that the tenor of the discussion by the Surplus Property Administrator and the Department of Justice, Mr. McGranery, yesterday, has indicated to the hearing that we haven't been given any encouragement as yet that any offer from us would receive favorable consideration. Yes, we are interested in these plants, we believe they are good plants, but whether we are to be given an opportunity to be considered in connection with the purchase is something that we——

Senator O'MAHONEY. Of course, Mr. Wilson, let me say that this public meeting by several committees of the Senate is being held for the express purpose of developing all of the facts in connection with this matter.

Mr. WILSON. I appreciate that.

Senator O'MAHONEY. So that the opportunity is presented to you to make your position quite clear without any assumptions as to what action will be taken by any Government agency. In the last analysis, Congress lays down the policy. So again I ask you, are you interested in making any sort of an offer on a temporary basis?

Mr. WILSON. I thought I had answered the question. Yes, we are interested in making offers on certain of these plants if it is desired, on the part of the Government, that we do so.

On a temporary basis—I don't know what "a temporary basis" means. So far, anything that has been discussed as a temporary basis is not a basis on which plants can be operated.

Senator O'MAHONEY. Have you made any offer of any kind to the Surplus Property Board or to the Defense Plant Corporation which would inform either of those agencies as to your idea of what a temporary basis is?

Mr. WILSON. We made an offer on July 24 to the Surplus Property Board, addressed to Mr. Symington, in which we offered to sit down with him, if he wished, and see whether a lease arrangement on the Hurricane Creek plant, satisfactory to both sides, could be worked out, and we never to this day have had an acknowledgment of that letter.

Senator O'MAHONEY. Of course, that deals with a plant which was producing the alumina, which is a source of supply which all aluminum companies might be interested in having. Without a free supply of alumina, there would be no possibility of any competition in the industry, I take it.

Mr. WILSON. Our letter set out the provisions which we would accept, which would safeguard that situation—at least we felt would safeguard that situation.

Senator WHERRY. Senator O'Mahoney.

Senator O'MAHONEY. Senator Wherry.

Senator WHERRY. The Senator has a wonderful ability of taking questions out of your mouth. That was the very question I was going to ask, following the one I asked you relative to whether or not the door had been kept open.

Senator O'MAHONEY. I didn't mean to steal your thunder, Senator Wherry.

Senator WHERRY. Maybe you did not mean to, but I tell you, Senator, you are good at that.

Senator O'MAHONEY. I am glad you are thinking of the same questions.

Senator Wherry, may I interrupt just a moment? The Chair takes note of the presence of Congressman Norrell, of Arkansas. May I say to you, Congressman, that the committee will be glad to have you participate and ask any questions you desire, even if you do take them out of the mouth of any Senator.

Senator WHERRY. We are getting some place now in this forum.

I would like to ask one more question. Do you feel that you have given every opportunity to any of the companies that now lease these plants? I am just as much interested in the Reynolds Co. as I am in Alcoa, and I am just as interested in these two offers that were made by American Smelting & Refining and the Olin Co. as I can be, because it is my thought, and I think probably the Administrator will agree with me, that if there is an opportunity to sell these to corporations on a private-enterprise basis you are perfectly welcome to do it. I would like to have Mr. Symington tell me if he will keep the door open, and that if any proposition has been made or can be made before the time has expired, that you give these companies an opportunity to negotiate with you, because I feel in the long run if you can sell them on the old private-enterprise basis, we will be better off than any subsidized program we can initiate. That is the question I wanted to get to, and I appreciate Senator O'Mahoney's asking that very pointed question of the Alcoa people, because if no one is willing to buy these plants, and there is no offer made, it seems to me we are in an entirely different position than we are if we close the door and don't give them a chance to bid and initiate one of these leasing programs before that time, whether it is Reynolds or Alcoa or anybody else.

Mr. SYMINGTON. Senator, I would like, if I may, to answer that, sir, and I would also like to discuss a little bit this letter of July 24.

I had been with the Board for a very few days—I think about a week or 9 days—and I did not see the letter for about 5 weeks. However, the letter was an offer on the part of the Aluminum Co. to do things entirely on their own terms. I did see Mr. Davis, the head of Alcoa, shortly after I had seen that letter, and at that time there was no renewal of any offer that was in that letter.

Senator O'MAHONEY. Do you have a copy of the letter with you?

Mr. SYMINGTON. I think a copy is in the answer of the Aluminum Co. that I received this morning.

Senator O'MAHONEY. I think the letter ought to go into the record.

Mr. SYMINGTON. We will see that it does, sir.

The next point is that, even when we saw the letter, it nevertheless was a fact that the Alcoa people, over a period of years, have been dealing with the RFC, and I always emphasized to them that they should continue their negotiations for an actual trade with the RFC, and that from the policy standpoint our only interest was an effort to get a more competitive picture.

It wasn't long ago that I told some people connected indirectly with the Aluminum Co. that it seemed to me it would be a fine thing for the Aluminum Co. to welcome at least one competitor, especially as there was one competitor who had a lot of experience.

I want to correct my previous testimony about only talking with Alcoa once. I talked again with Mr. Wilson, or I talked for the first time with Mr. Wilson but again with Alcoa, last Saturday morning.

Senator WHERRY. That is what I thought.

Mr. SYMINGTON. At that time I almost pleaded with them to consider this proposition from our standpoint, on the basis that we felt obligated to get somebody else in the industry. Mr. Wilson was very courteous, but I got no feeling from that conference with him that we had gotten anywhere from the standpoint of this problem.

I would like to emphasize to you that provided we don't violate any court order or any instructions from the Attorney General, that the Surplus Property Board is interested in disposing of these plants to anybody at any time on the best basis to the Government.

Senator WHERRY. I thank you for that statement. That is very constructive. I am glad to know that that is going to be the policy.

ALCOA OFFERS TO PURCHASE JONES MILLS PLANT UNDER "MUTUALLY SATISFACTORY" CONDITIONS

Senator O'MAHONEY. The Chair will read into the record at this point the letter of July 24, 1945:

Mr. W. STUART SYMINGTON,
Chairman, Surplus Property Board, Washington, D. C.

DEAR MR. SYMINGTON: We have been asked by several friends and associates in the State of Arkansas whether we desire to acquire, and continue to operate, the smelting plant in Arkansas known as Jones Mills and the alumina plant in Arkansas known as Hurricane Creek. We feel that the proper way for us to delare ourselves on this point is to address you.

Consequently we advise you that, under mutually satisfactory conditions as to price, terms, etc., the determination of which we anticipate will present no real difficulties, we would be glad to purchase the smelting plant at Jones Mills. The only condition which at the moment occurs to us as to Jones Mills is that, as is obvious, any purchaser of Jones Mills must be first assured of a continued supply of natural gas. We are, of course, aware that any acquisition of this plant requires the approval of not only your Board but other authorities.

With respect to the alumina plant at Hurricane Creek, we would like to buy it but, if the United States Government would prefer to retain title to it, we would be glad to operate it under lease. If we operated it for the Government, we would expect the Government to provide, either by purchase from us or from others, the necessary bauxite, and we would also expect the Government to retain the right to establish the price at which the alumina will be sold to us and to other plants as dictated by the Government, whether Government-owned or privately owned plants.

It is our opinion that operation of Jones Mills and Hurricane Creek plants should be under one jurisdiction and consequently we add that we would not consider it feasible for us to acquire Jones Mills without at the same time acquiring or leasing Hurricane Creek.

We have had several conversations with Mr. Gordon Reed of your organization and have disclosed to him the general contents of this letter.

We have given consideration but have not as yet arrived at a conclusion as to the acquisition or continued operation of any other Government-owned alumina, smelting, or fabricating plants but as the plans of the Surplus Property Board as to their disposal and as our own studies are completed, we will hope to have the opportunity of presenting to you our interest with respect to one or more of the other plants just referred to.

If there is any further information which we can give you along this line, we would be glad to do so, and with kind regards, we remain

Yours very truly,

ARTHUR V. DAVIS.

Congressman Norrell, did you care to ask a question?

Mr. NORRELL. I have one or two questions. I am not sure that they have been brought out.

I am under the impression that as Director of the Surplus Property Administration, you have gone to quite a great effort to interest various and sundry corporations in the purchase or lease of these plants; is that true?

Mr. SYMINGTON. That is correct, Mr. Congressman. We wired over 200 people and asked them, if they were interested in any way would they let us know about it.

Mr. NORRELL. Of the 200 people you contacted, how many replies did you receive?

Mr. SYMINGTON. I don't remember exactly how many replies, although most of them were negative. Of the two-hundred-odd, we had 12 answers which were interested, and 4 of those were interested in the machinery and not in going ahead.

Mr. NORRELL. Actually, briefing it down, how many plants expressed an interest in either the leasing or operation of the plants as they stand?

Mr. SYMINGTON. I think about eight, sir.

Mr. NORRELL. And today, how many prospective operators do you have that you can absolutely count on?

Mr. SYMINGTON. That would be a difficult question to answer, because we have people interested but we are not sure if they have the resources to handle it.

Mr. NORRELL. Is there anybody in the field interested in the alumina plant except Reynolds and Alcoa?

Mr. SYMINGTON. I will have to pass that question to Mr. Husbands. He knows more about the details of the negotiations than I.

Mr. HUSBANDS. I just received an offer last night from the Columbia Metals Co. whereby they also express an interest in the alumina plant.

Mr. NORRELL. In the 200 letters you sent out, did you send one to Alcoa?

Mr. SYMINGTON. To be frank, I can't answer that question. If I had sent the telegrams, I don't think I would, because the Attorney General said we couldn't sell them to Alcoa.

Mr. NORRELL. As a matter of fact, you haven't indicated a desire for an offer from Alcoa because of the ruling of the Attorney General?

Mr. SYMINGTON. It was our impression that we could not sell a plant to Alcoa.

Senator O'MAHONEY. Would you care to add to that, because of the decision of the circuit court of appeals for the second circuit, dated March 12, 1945?

Mr. SYMINGTON. I certainly would if I had thought of it.

Mr. TROY. I will state that a lot of the offers that will be forthcoming will be dependent entirely upon what is decided by your august body; that the decisions made by this committee will, in effect, create offers; and, depending on that decision, the offers will be forthcoming at that point, not before.

Senator O'MAHONEY. May I, on behalf of the committee, thank you for the word "august."

Senator WHERRY. Mr. Symington, if you stress the leasing program—and it has had a lot of publicity in the last 2 days—do you feel that might hold up or discourage some of these who are interested in buying these plants outright?

Mr. SYMINGTON. No, sir; from our standpoint it looks to us, Senator, as if it would be very difficult for most, if not all of the people who have a combination of resources and any experience in metals, especially aluminum, to purchase these plants at this time.

Senator WHERRY. Was not that the reason that the American Smelting & Refining Co. pulled out and did not go on with the negotiations; they did not like this subsidy program, Mr. Husbands?

Mr. HUSBANDS. Yes, sir; and also that the plants were too large.

Senator WHERRY. But the answer you gave yesterday was that that did discourage them, and that is the point I am making. It seems to me that if you continue to hold out, you are going to lease these plants and subsidize them in the event of a loss; you are going to destroy the very things that might sell one of these plants to some owner who would take it on his own.

Mr. SYMINGTON. I think you have a good point there, Senator. I personally feel that as a general rule the Government should sell these plants wherever they can. I am against leasing, unless we only lease because of a fear of monopoly or for some similar purpose.

Mr. ANDERSON. Do either of you gentlemen have the exact wording of the smelting company's reply?

Mr. HUSBANDS. It was by telephone. Mr. Brownell, vice president of the American Smelting & Refining, telephoned.

Senator O'MAHONEY. The Chair suggests that representatives of the smelting company will be here tomorrow, and we will have the opportunity, when Mr. Husbands goes on the stand, representing the agency which did all the negotiating, to discuss this phase of the matter with him. Perhaps we may now progress in a little more orderly manner if we call upon Mr. Berge to testify with respect to the Attorney General's report.

The theory upon which we were holding the hearing was that Mr. Symington would appear first to describe the recommendations of the Surplus Property Administration; the Attorney General would then be represented to describe the report of the Attorney General on the aluminum industry—a report which was made in compliance with section 205 of the War Mobilization and Reconversion Act. Following this description of the recommendations which have been made to Congress, it was the purpose of the committee then to call upon Mr. Husbands to tell the story of the contracts and the negotiations.

Now, if that is agreeable to the members, we will proceed in that manner.

Thank you very much, Mr. Symington.

Mr. SYMINGTON. Thank you very much.

Senator O'MAHONEY. Mr. Berge, will you take the stand?

STATEMENT OF WENDELL BERGE, ASSISTANT ATTORNEY GENERAL, DEPARTMENT OF JUSTICE

Mr. BERGE. Mr. Chairman and members of the committee, these joint hearings of three important Senate committees are a major contribution to the successful transition from a victorious war to a prosperous peace. Aluminum is one of our most promising frontier industries. Given the chance, it will make two jobs and two dividends grow where only one, or none, grew before. Full production and employment will get much nourishment from such industries as this one.

The successful disposal of the Government aluminum plants depends on how close businessmen can get to the realization of these possibilities. Create conditions which will stimulate this industry's markets to grow and there will be bidders for the Government plants. As I will show more fully in a moment, the condition most necessary for the future of the aluminum industry in general and the Government plants in particular is competition.

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THREE REPORTS AGREE ACCENT OF GOVERNMENT DISPOSAL POLICY MUST BE ON COMPETITION

Fortunately, this joint committee does not have to start at the beginning of this rather complex problem. Congress has before it now three reports on aluminum from the Senate Small Business Committee, the Surplus Property Administration, and the Attorney General. All three agree that the accent of the Government's disposal policy must be on competition if the industry is to grow large enough to absorb the productivity of the Government, as well as of the private plants.

This unanimity is gratifying, particularly since the reports came back from three separate agencies. The Attorney General's report was made pursuant to the mandate from Congress as stated in section 205 of the 1944 Reconversion Act. That section requires that the Attorney General make surveys of any developments—

which may tend to eliminate competition, create or strengthen monopolies, injure small business, or otherwise promote undue concentration of economic power in the course of war mobilization and during the period of transition from war to peace and thereafter.

The Small Business Committee had been investigating the possibilities for small business in the light-metals industries. The Surplus Property Administration was concerned with the problems of disposal. Yet despite these variations among the three reports, the fundamental conclusion was the same.

FEDERAL COURT RULING DISCUSSED

Before discussing the highlights of the Attorney General's report, I want to make it clear that the Federal court has control over whatever action is to be taken with respect to the private properties of the Aluminum Co. of America. The court ruled in its decision on the aluminum case last March that "in deciding whether to dissolve Alcoa or how to do it" it will "wait until it learns what the agency [that is, the Surplus Property Administration] has in fact done." The Attorney General's report, on the other hand, is intended to inform Congress on the state of the aluminum industry with emphasis on the rise or decline of competition and monopoly. We tried to make it practical and useful to you in reconversion and surplus property disposal policies.

Senator O'MAHONEY. Mr. Berge, would one be justified, in your opinion, in drawing the conclusion from this quotation from the decision of the circuit court of appeals, that the court, which was sitting as a supreme court, was in fact warning the executive agencies of the Government that if the properties, particularly the primary aluminum properties, were awarded to Alcoa, the court would then be justified in ordering the dissolution of the Aluminum Co. of America; but that if, in accordance with the mandate of the Surplus Property Act, these properties were disposed of in such a manner as to establish competition, then the court might consider not proceeding with the dissolution of the company?

Mr. BERGE. Yes, Mr. Chairman, I think that is a splendid interpretation of the court's opinion. The court had before it a record that had been closed about 5 years before. I think one can say that if the court had felt that that record was up to date, it would have ordered

dissolution then and there, but it couldn't be blind to the facts of what had gone on in the world since the close of the record. Therefore they said, in effect, "We will defer final decision on the dissolution question now, pending the outcome of what the Government may do with these surplus plants. If effective competition is created by the surplus property disposal policies of the Government, it may not be necessary to dissolve Alcoa or at least to carry through the same kind of dissolution program, as extensive, as would have been the case on that record. If, on the other hand, the executive agencies of the Government fail to create competition, then the court will have to do the job by a thoroughgoing dissolution of Alcoa."

I think that additional language from the court's decision which I will allude to later on in my testimony will further emphasize that.

Senator WHERRY. Then it would be your interpretation that Mr. Symington could not dispose of one of these plants to Alcoa without it meeting the approval of the court; is that right?

HIGHLIGHTS OF ATTORNEY GENERAL'S REPORT

Mr. BERGE. Yes, Senator Wherry. That is, it would be my interpretation of the court's opinion that it would certainly run contrary to the antitrust laws to do so on any permanent basis. I am not saying—and I don't want anything in my testimony to be interpreted as meaning—that a short-term interim lease would necessarily be contrary; but I think we are under a mandate, in interpreting the laws of Congress—I think the Attorney General is—to tell the Surplus Property Administration, when we are called on for an opinion, that any permanent sale to Alcoa would be illegal—I mean Alcoa as it stands today.

I would amplify that by saying that in an over-all reorganization of the aluminum industry, such as the Attorney General's report suggests may be necessary, a regrouping of the various branches of the industry, it would be conceivable that if certain plants and properties were taken away from Alcoa to create new competition, they might be allowed to get certain plants now owned by the Government. The only way in which Alcoa could permanently acquire any of the Government plants would be as part of some over-all program which really created competition. Piecemeal sales to Alcoa now would not be legal.

Senator WHERRY. And that the only consideration Mr. Symington could give to any offer from Alcoa now would be simply on a temporary-lease basis?

Mr. BERGE. Yes.

Although the aluminum industry is more Government than privately owned today and the bulk of the wartime expansion was with public funds, Alcoa still has over 90 percent of the Nation's active or stand-by producing capacity and about three-fourths of the heavy fabricating capacity under its management. Only one other producer, Reynolds Metals Co., is now in the field. The picture will change somewhat on November 1 because the Government's cancellation of Alcoa's lease on the producing plants will then be effective. But as yet no other company has made arrangements to lease or purchase those plants. Consequently, we concluded that the war expan-

sion has not changed materially Alcoa's position of dominance. A more detailed analysis of the wartime changes and their effect on the competitive pattern of the industry is to be found in section II of the Attorney General's report.

Competition will not come automatically or easily in this industry because of the preemption of the industry by Alcoa. Other producers are handicapped because they cannot get adequate supplies of bauxite or of electric power at sufficiently low cost to be able to match Alcoa's costs of production. Other obstacles are the undesirable location of many DPC plants and the excessive size of some, making them uneconomical for peacetime operation. Another deterrent to newcomers is the fear of competition from Alcoa's foreign friends, especially the Canadian company which has the benefits of extraordinarily cheap power from the Shipshaw project.

Under these circumstances, Government action must pave the way for competition. Private business cannot be expected to do the job alone, particularly since it has not been able to do so during the past 50 years in this industry. In my judgment the next question to be settled is whether the benefits to be gained are worth the effort involved. After reviewing the wartime difficulties and the future possibilities of the industry I would say the answer is "Yes," no matter what it takes to get competition firmly and honestly established.

The burden of monopoly during the war was the burden of having only one experienced company to carry the enormous responsibility for supplying the aluminum needed by the aircraft companies. It is not at all an issue of patriotism. Even the best of one company was not enough. Also, when expansion had to take place there was only one small pool of experience which had to be spread very thin. The size and location of plants had to be adjusted to this paucity of top personnel. Unquestionably our war experience proves that, in the interests of national security we must have many aluminum companies. There is no such thing as an indispensable monopoly.

The realization of the future possibilities of aluminum also requires a competitive industry. The big consumers—the automotive, railroad equipment, and housing industries—will not expand their use of this desirable metal until they have multiple sources of supply. That fact is generally recognized throughout industry and was attested to by witnesses during the Small Business Committee hearings. As far back as 1915, automobile manufacturers were already using 75 pounds of aluminum per car. But a 74-percent increase in prices between March and November of that year forced them to seek substitutes. As a consequence, the consumption of aluminum by this industry dropped so sharply that it averaged only 5 pounds per car at the time of Pearl Harbor. The possible consumption, on a sound engineering basis is 100 times as much, 500 pounds per car. That is the view of Alcoa's own engineers. If that rate of consumption is achieved or even approached, ample markets would exist for the output of both the Government and the private plants. Only a competitive aluminum industry, however, can tap this potential market.

How to establish that competition with a minimum of Government participation in the industry is, of course, the most difficult question of all. In the Senate committee and Surplus Property reports, the consideration of this problem is limited to the matter of inducements

which will be necessary to attract independent operators for the Government plants. But to meet the requirements of section 205 of the Reconversion Act, we felt that we ought to look beyond any disposal program to see whether the independent operators so brought in could survive the eventual withdrawal of Government aid and preference. I might point out here that the Federal court had taken the position, in its decision on Alcoa, that it will maintain jurisdiction over Alcoa until the effect of the Surplus Property Administration's disposal program can be appraised. At that time the court will decide what further action is necessary to make the industry competitive.

Senator O'MAHONEY. May I interrupt to ask you if you can point to the precise language in the court's opinion which supports that statement?

Mr. BERGE. Yes; if you will pardon me a moment I have already checked some language in the opinion which covers that. It appears on pages 1254 and 1255 of the opinion. Before reading the pertinent language I might say that the court had been discussing the provisions of the law for surplus-property disposal, and the functions of what was then the Surplus Property Board. And the court said that the Board might well believe that it would have to have some plan or design for the industry as a whole—

> some comprehensive model which shall, so far as practicable, reestablish free independent private enterprise, discouraged monopoly, strengthen small competitors, foster independents and not foster monopoly or restraint of trade.

In other words, they suggest that we also develop in our report that the disposal program may have to be carried out with a view to the over-all regrouping of Alcoa's present operations. Then the court goes on to say:

> Conceivably Alcoa might be left as it was; perhaps it might have to be dissolved; if dissolved, the dissolution would depend upon how the other plants were distributed. If the agency should find it wise to proceed in this way, it may suceed in inducing Alcoa to accept the place assigned to it, particularly if the plant has not been prepared ex parte. If it does not succeed, then, but then only, will it be appropriate for the distrct court to act. We do not of course mean that in deciding whether to dissolve Alcoa, or how to do it, that court must be governed by any plan which the agency may have devised, if it does devise one. But plan or no plan, it must wait until it learns what the agency has in fact done. Moreover, if the agency does form a plan, it will have been an attempt to realize the same objectives for which the court itself must strive; and the court may well feel that it should accord to the agency's plan that presumptive validity which courts are properly coming more and more to recognize in the decisions of specialized tribunals. Nothing which we now say ought in any measure to limit the discretion of the agency to proceed in this way. Therefore we shall merely reverse the judgment, so far as it held that Alcoa was not monopolizing the ingot market, and remand the case to the district court.

And there is other language in the opinion to the same effect.

Senator O'MAHONEY. I think that covers the point.

Senator WHERRY. Just one moment before you leave that point. Alcoa was not adjudged to have a monopoly in any other thing but ingot, isn't that right, Mr. Berge; isn't that the court's opinion?

Mr. BERGE. Yes; I think that is true.

Senator WHERRY. If there was a monopoly it ran to the production from alumina?

Mr. BERGE. Yes.

Senator REVERCOMB. May I interrupt there, Senator Wherry, to read the court's language sustaining just what you have indicated?

Senator WHERRY. I will be pleased if you would do so.

Senator REVERCOMB (reading):

> Therefore, we shall merely reverse the judgment, so far as it held that Alcoa was not monopolizing the ingot market, and remand the case to the district court.

Mr. BERGE. Now, in anticipation of a question along this line I would like to state my views in a prepared answer that I have.

Senator WHERRY. I don't care to interrupt your statement, I want to cooperate fully with the chairman, but if it is O. K. with him, it is O. K. with me to have it right now.

Mr. BERGE. Well, here is my thought on it. It is true that the finding of monopoly by the court was merely as to ingot, but it is our position as a practical matter that you can't create competition in ingot unless the matters of a supply of bauxite and alumina, and markets for the ingot and the fabricating facilities are all made competitive as well.

Senator WHERRY. Then would it be your recommendation that in the event they set up other companies through Government aid, that you would go to the source of supply and purchase the bauxite and then reduce it to alumina and then start in there? Would you have a completely integrated institution under these leases?

Mr. BERGE. As for short-term temporary leases——

Senator WHERRY. How far would you go in this opposition to monopoly?

Mr. BERGE. I think, Senator, that for the long run—and I am not discussing possible temporary arrangements—but for the long pull I don't see how you can have effective competition with Alcoa if its competitors are dependent on Alcoa for either bauxite, alumina, or for fabricating facilities. That is, even though the court has merely found monopoly as to the ingot production, I think it would be fatuous to suppose that you could merely create some competition in the production of ingots unless the companies so created as competitors had independent sources of supply, and also the fabricating facilities.

So our report in a general way suggests that as part of the ultimate plan for this industry Alcoa will probably have to surrender some of its sources of bauxite and alumina production facilities as well.

Senator WHERRY. Well, there is plenty of bauxite available without taking any away from Alcoa. The Reynolds Metals Co. testified before the Small Business Committee that they had enough deposits down here in Jamaica to run them for a hundred years; isn't that so, Mr. Caskie?

Mr. CASKIE. Jamaica and Haiti.

Mr. BERGE. Senator, I am not saying just what would be necessary by way of carrying that out. I am merely enunciating the principle. I don't know to what extent, if any, it would be necessary——

Senator WHERRY. It is on your recommendation that the agency is going to act. Do you feel that there should be a completely integrated competitor or competitors from the bauxite clear through to the fabricator, to resist this so-called or alleged monopoly that you set up in your opinion?

Mr. BERGE. I think so.

Senator REVERCOMB. May I ask a question, Senator?

Senator O'MAHONEY. Yes.

CLARIFYING COURT'S FINDINGS ON MONOPOLY PHASES IN ALCOA DECISION

Senator REVERCOMB. Mr. Berge, I don't follow you clearly. You are basing your views upon the opinion of the Court, and the Court has found, in effect, that there is no monopoly in the production of bauxite, that there is no monopoly in the production of sheet, but only in the production of the ingots. Why, then, must there be a break-up? If it is necessary, do it, but on the findings of the Court why must there be a break-up in those things in which there was no monopoly?

It was stated in the record here yesterday that there are perhaps 1,500 companies in this country, as I understood it, dealing with different phases of the manufacture of aluminum. Now if there are hundreds of companies engaged in the production of bauxite, and hundreds engaged in the production of sheet aluminum, or however many there may be, where is monopoly existent there? Why must there be a breaking up there? The Court has held in effect that the only monopoly is in the production of the pig or ingot aluminum.

Mr. BERGE. But the Court has also said, Senator, that unless there is effective competition created through the disposal program, there will have to be some kind of a dissolution of Alcoa. Now they didn't undertake at this point, nor could they, to prescribe in detail how that could be done.

Senator REVERCOMB. Let me interrupt there. Of course, if there is a monopoly in disposal or in the handling of markets you would break it up; but this Court doesn't say that there is, this Court says that the only monopoly is in the manufacture of ingots.

Mr. BERGE. Senator, I think it would be quite unrealistic to think that you could get effective competition in this industry where you have one company that is completely integrated—I think it is unrealistic to think that you could get effective competition unless there were some other integrated companies. Now, I am not undertaking to say now—and I don't have the technical competence to say—how much Alcoa would have to surrender in order to make it possible for other integrated companies to be established. I am not prepared to discuss that, I don't know enough about that; but to the extent that it is necessary—let me put it this way—for Alcoa to surrender facilities for making alumina or fabricating facilities, I think that would have to be done to carry out the Court's opinion. I am merely saying that I don't think you can create effective competition by setting up companies merely to operate as ingot-producing companies.

Senator REVERCOMB. The Court certainly separated the processes involved in the making of aluminum, and as a matter of fact they have been separated by the numerous companies, some being engaged in the manufacture of aluminum, some in the production of alumina, and so on.

Senator O'MAHONEY. It occurs to the Chairman to remark at this point that the letter of July 24, 1945, written to Mr. Symington by Mr. Davis, the head of the Aluminum Co. of America, stated in words of one syllable that the Aluminum Co. would not be interested in acquiring the Jones Mills facilities in Arkansas without the Hurricane Creek plant; in other words, it did not want to take the Government ingot plant off the hands of the Government unless the Government agreed to give it a supply of alumina.

Mr. BERGE. I think that is very pertinent, which suggests that in that particular situation Alcoa itself felt that they had to have the integrated facilities if they were to acquire either branch of the industry.

Senator REVERCOMB. That doesn't exclude the idea that there are many other companies in the business of one or the other of those plants. The fact that one company, Alcoa or any other company, wanted the two plants together, doesn't mean that there wasn't competition in one or the other of those kinds of plants, when, as a matter of fact, we know that there is competition in them, and the Court so held here.

ALCOA CONTROLS 90 PERCENT OF INGOT AND 96 PERCENT OF ALUMINA CAPACITY

Mr. BERGE. You have to consider, I think, the many years head start that Alcoa has had in this industry, and the great advantages that integration gives.

I want to make it clear that I am not saying now that they should be divested of any particular facilities, but I am simply laying down what appears to me to be the principle, and I don't think this court will be satisfied with anything less.

I would like, if I could, to just read into the record a paragraph I prepared on the point, because I am not sure that I have covered everything that I had in mind, in this oral discussion.

Nothing in the decision justifies the position that the ingot branch of the industry can be dealt with independently of either the sources of material from which ingot is made or of the markets in which ingot is sold. Actually Alcoa's control over the production of alumina, the raw material from which ingot is made, was greater than that of the primary metal. Alcoa had under lease 90 percent of the ingot capacity, but 96 percent of the alumina capacity. If this degree of control of alumina capacity was left in Alcoa's hands, the independent ingot producer would have to purchase his alumina from Alcoa and thus lose his status as a true independent. In general, the practical situation is this, that since Alcoa is an integrated producer, competing producers of ingot must also be integrated if they are to survive in peacetime without the perpetual protection of Government controls and subsidies. Consequently, bona fide competition can be expected only from those independent ingot producers who have their own source of alumina and bauxite and who also carry on some fabricating operations. In other words, a competitor must be in a position where he is not dependent on Alcoa for any of his raw materials nor for the marketing of his ingot.

Senator STEWART. What do you mean when you say 90 percent of the aluminum capacity?

Mr. BERGE. The plant facilities.

Senator STEWART. Does that include bauxite?

Mr. BERGE. No; I am speaking here of the facilities for manufacturing aluminum.

Senator STEWART. For the ingot?

Mr. BERGE. Ninety percent of the ingot capacity and 96 percent of the alumina capacity.

Senator STEWART. Do you mean that Alcoa owns 96 percent of the alumina?

Mr. BERGE. I am speaking of the present situation, their ownership plus their Government-leased alumina plants.

Senator O'MAHONEY. That is, they have management of 96 percent of the alumina capacity?

Mr. BERGE. Yes.

Senator WHERRY. They actually have 54 percent control of their own, don't they?

Mr. BERGE. Of their ownership?

Senator WHERRY. Yes.

Mr. BERGE. I think——

Senator STEWART. The Government has some fifty-odd percent, but Alcoa's actual ownership is about 37 percent, as I understand it, or a little better than one-third of the actual known deposits of bauxite.

Senator WHERRY. I appreciate what Senator Stewart says, but I would like to ascertain as to the ownership of what is he referring.

Senator STEWART. Bauxite.

Senator WHERRY. That is the ore, you mean?

Senator STEWART. Yes.

Senator O'MAHONEY. Bauxite in the United States?

Senator STEWART. Oh, surely; bauxite in the United States.

Senator WHERRY. I was interested in the alumina plants, their ownership there.

Mr. BERGE. The figure of 96 percent I gave applied to the alumina plants now under the management of Alcoa.

Senator STEWART. That includes plants that were built during this war?

Mr. BERGE. I am told that the ownership by Alcoa of alumina plants is 44 percent.

Senator WHERRY. I know it is around 40 percent. Now, the difference between that and the 96 percent represents the plants that Alcoa operates under lease; is that right?

Mr. BERGE. Yes; I believe so.

Senator WHERRY. Well, let's get that straight, as I think that is very important.

Mr. BERGE. I am speaking of alumina, and the privately owned capacity of alumina is 44 percent Alcoa and 4 percent Reynolds, making 48 percent of the total capacity privately owned.

Senator WHERRY. Now, does the Government have the rest of that?

Mr. BERGE. Yes.

Senator O'MAHONEY. Isn't this all set forth in the appendix of the Report of the Surplus Property Board?

Mr. BERGE. It is in the appendix of the our report, at page 49 of the Attorney General's report.

Senator WHERRY. Take, for example, the rubber business. You could claim that because they actually manufacture into tires the rubber that it would be a monopoly if they went back and got the raw materials, and so forth, and so on. What would be the difference? I don't see any difference there.

Senator O'MAHONEY. Well, Senator Wherry, there are at least five primary rubber companies.

Senator WHERRY. There are three.

Mr. BERGE. I am certainly not taking any position——

Senator WHERRY. And that isn't all—they control the rubber from the time it is produced from the trees. One company even engages in selling the tires at retail in company-owned stores in this country.

Senator O'MAHONEY. Do I understand that the Senator's argument is that because a near monopoly exists in rubber we ought to have one continued in aluminum?

Senator WHERRY. I didn't say that. I say that if you set up a policy on the theory that you are talking about, where the Government has got a right to go into business to oppose any company that manufactures anything, then you are setting up a precedent whereby the Government is going to go into business against any other institution in this country—railroads, tires, or anything else.

Senator O'MAHONEY. Please don't make that personal, Senator Wherry. The theory was laid down by Congress, first in 1890 when it passed the Sherman antitrust law. Nobody can misunderstand the purpose of that law.

Senator WHERRY. That is right; I understand that.

Senator O'MAHONEY. It was again laid down by Congress in 1944 when a mandate was laid upon these Government agencies to endeavor to reestablish free enterprise——

Senator WHERRY (interposing). That is the New Deal interpretation.

AMERICA'S MOST DIFFICULT TASK IS TO REESTABLISH FREE ENTERPRISE

Senator O'MAHONEY (continuing). And when we talk of "free enterprise we don't mean monopoly either by private control or by public control. The most difficult task in America today, if not in the world, is to reestablish free enterprise, free from both of these arbitrary dominations, one of which is exercised by Government in the authoritarian state, and the other of which is exercised by private monopoly. Now we have just got to make up our minds whether we want to have real free enterprise or whether we are going to permit ourselves to drift into complete private monopoly.

Senator WHERRY. I raised that question and I would like to answer it. If you establish a lease whereby the Government guarantees against loss, you are establishing a Government monopoly in aluminum, and you are going to make every other company, privately owned, meet that price in this country. That is monopoly by the Government.

Senator O'MAHONEY. The Senator recognizes that he is making an assumption. The Chair, and nobody else that I know of——

Senator WHERRY (interposing). I am making an observation.

Senator O'MAHONEY (continuing).—has undertaken to recommend a policy by which the Government should sustain these losses whether or no.

Senator WHERRY. That is the recommendation made by Mr. Husbands, that if there is any loss sustained the Government is going to stand it, and that is an indirect subsidy. Isn't that right, Mr. Husbands?

Mr. HUSBANDS. That wasn't a recommendation, it was a suggestion that if the Congress wished to do it that way, that that is what would happen.

Senator WHERRY. But that is your policy that you are announcing.

POSITION IS NOT THAT OF WANTING TO PUT GOVERNMENT IN BUSINESS, SAYS WITNESS

Mr. BERGE. I want to make a comment, with all due respect, because Senator Wherry attributed to me a position that is definitely not the position that I intended to take. Senator Wherry stated that he thought that our position was one of wanting to put the Government into these businesses, and that because we might be against one integrated company in this industry that necessarily we had to oppose integration in all other industries. That doesn't follow at all as I see it. Each industry has to be viewed on its own facts. There are few, if any, industries—I can't think of any—that are comparable in structure to the aluminum industry, and I think it has no relevance to the question under discussion to point to the rubber industry or to some other industry.

Senator STEWART. What about the Western Union Telegraph Co.? The Government passed antitrust laws and there they repealed them to let Western Union take over.

Mr. BERGE. As I recall it, Senator, when Postal was seeking the right to merge with Western Union they came to the Department and we told them that it was violative of the antitrust laws, although there were some economic considerations that pointed there to allowing it to go through, and they then came to Congress and got a special bill permitting the merger.

Senator STEWART. I remember that very well.

Mr. BERGE. I don't think we opposed it. I think, though, that the telegraph industry is in the nature of a public utility and is subject to regulation which is not generally applicable to private business; and I do suggest that if the Congress wants to reverse its position, wants to reverse the position laid down time and again in legislation, in the Sherman Act and in the surplus-property legislation, and change its directives that competition should control, that Congress has the power to do it, and if Congress wants to create a legislative exception for the aluminum monopoly they can do so.

Senator WHERRY. Violation of the Sherman antitrust law is an enforcement proposition and we are here establishing a policy of breaking up a monopoly by putting the Government in business.

Senator STEWART. Let me get back to the Western Union Co. and Postal. Would you have felt like subsidizing the Postal Telegraph Co.?

Mr. BERGE. Senator, I don't favor subsidies of any kind and the Department of Justice isn't advocating subsidies here. Perhaps temporary incentive subsidies may sometimes be necessary, and that is a question of legislative policy. I certainly think that if subsidies have to be resorted to it should be only in a very limited way and for a very limited period. I am not suggesting subsidies here.

Senator REVERCOMB. Mr. Berge, I will say to you that I know from your report that you are correct in that statement, but Mr. Symington is suggesting subsidies.

Mr. BERGE. Temporary.

Senator REVERCOMB. Subsidies to hold them up and run in competition with going private business.

Senator STEWART. Probably long enough to allow competition to become established.

Mr. BERGE. I am not taking the position that subsidies are necessarily, per se, always bad. I think that they may be warranted in a very limited way and for a very limited time.

Senator O'MAHONEY. May I interrupt you to say that as the Chair understands the situation which has been developed here this morning in discussion, there has been some criticism because the Surplus Property Administration canceled contracts with Alcoa, contracts which in fact were subsidy contracts.

Mr. BERGE. Yes.

Senator O'MAHONEY. So that we are in the position of having the witness, as it were, attacked as defending subsidies, while at the same time the previous witness was attacked for having canceled a subsidy contract.

Senator REVERCOMB. Mr. Chairman, let me interrupt there to say this. Let me add to your statement that the inquiry made upon the point of the cancellation of the contracts was not that they should not have been canceled, in time, but why cancel them at a time when they knew the plants would be shut down and throw people out of work? If at a later date it had been wise to cancel those contracts, certainly, cancel them.

Now about the subsidy feature under those contracts. We know that they were war contracts, we know that those plants were built hastily with Government funds. Certainly the Government would never have built those plants but for the war.

Mr. BERGE. Yes; but they were subsidy contracts.

Senator REVERCOMB. Of course they were, there isn't any question about that in wartime. We are making a plan here for the future economy of this country, and it comes down to this—first, we want no monopoly, but how far are we going to stop monopoly? Are we going to put Government in business to do it? I don't think that private enterprise can survive, or that any plant can survive, if the Government goes to that end.

Mr. BERGE. I don't like subsidies although I can conceive that there might be peacetime demands that warranted them on a limited basis. They were certainly required by the war. But my purpose—and I want to emphasize it—is not, as Senator Wherry suggested, to put Government into business and keep it there, but to create a situation where small business has a real and bona fide effective chance to operate in this industry.

Senator O'MAHONEY. But there is no authority in law for the Surplus Property Board to set the Government up in business, is there?

Mr. BERGE. Well, no, I suppose not.

Senator O'MAHONEY. Now, Mr. Symington, I think, wanted to make a comment at this point and I think it would be altogether appropriate that he do so.

"RFC HAS NEITHER AUTHORITY NOR INCLINATION TO SUBSIDIZE," WITNESS ASSERTS

Mr. SYMINGTON. Thank you, Mr. Chairman. I am most shocked at my efforts if Senator Revercomb felt that I was suggesting a subsidy. The point of this hearing, so far as the Surplus Property Administration is concerned, is that we want to know what the Congress wants to do about it. If we are directed to subsidize, it will be our effort to work that out with the RFC. We realize that we have no authority to subsidize and we are not suggesting that a subsidy is necessarily the way out of this situation.

Senator REVERCOMB. Mr. Chairman, let me read from a summary report by the counsel for the Surplus Property Committee, which is before me in print, and is what I based my statement upon a moment ago. I want to be entirely fair to Mr. Symington. I read from that report:

> The respective positions of the Surplus Property Administration and the Attorney General may be summarized as follows: The Surplus Property Administration naturally places the primary emphasis on disposal activities. It would attempt to find purchasers or lessees to operate Government-owned aluminum facilities in competition with Alcoa, and would extend certain Government aids to Alcoa's competitors. Surplus Property Administration expresses its hope that this program may achieve the purpose of the Surplus Property Act. It recognizes, however, that the objectives of its program may not be accomplished unless the courts dissolve or reorganize Alcoa under the Serman Act.

Now, the language there, "would extend certain Government aids to Alcoa's competitors," can mean nothing else to me than subsidy in some form, money or otherwise.

Mr. BORCHARDT. I beg your pardon, Senator Revercomb, but I think that I agree with the definition which the counsel for the Surplus Property Administration yesterday gave of what constitutes a subsidy, namely, a specific appropriation by Congress of moneys to be expended on a particular enterprise or group of enterprises. And the proposition of the Surplus Property Administration with respect to the terms of the leases does not, in my opinion, involve a subsidy.

Senator REVERCOMB. You may put that interpretation on what a subsidy is, but there is no difference between appropriating money and paying it to a company and making a contract for the company to pay Surplus Property or RFC certain amounts of money, and then forgiving that.

Mr. BORCHARDT. There may not be, economically, a difference. However, legally there is and I think it is one of the important things for this committee to determine—how far under the law the Surplus Property Administration or the RFC may go in granting terms, and liberal terms, to newcomers to the industry.

Senator REVERCOMB. Well, I am not going into the question of legal differences. I am going into the factual results.

Mr. SYMINGTON. In further discussion of this problem, sir, may we read the conclusion in our report to the Congress, part IV, Alternative Disposal Programs——

Senator O'MAHONEY (interposing). What page are you reading from?

Mr. SYMINGTON. Page 53.

> The Board reiterates its belief that in the case of the aluminum plants the objectives of the Surplus Property Act of 1944 can best be accomplished by a disposal plan that will promote competition in the industry. The program described in this report in the opinion of the Board seems more likely to promote competition and thus to achieve the purposes of the statute than any other proposal that has been called to the Board's attention. The Board recognizes that conditions beyond its control may make this program impossible of accomplishment. In that event, unless the courts dissolve or reorganize Alcoa under the Sherman Act, it will be for Congress to consider whether to

leave the aluminum industry under the domination of one company or whether to authorize the Government either by subsidized or direct operation of key plants to provide some measure of production that is independent of Alcoa's control.

So I say that in this case we are not recommending anything. We are leaving it up to the Congress to decide what they want to do with the aluminum industry.

Senator REVERCOMB. Of course, anything contained in your report, whether it is expressed in the alternative or not, when you say that you will do thus and so, or it may be done by subsidizing Government plants, in the language which you have just read, is the report to this Congress. While you say it may not be a recommendation it is the report that you have presented for us to act upon and it is one of the issues which we face and must decide.

Senator CORDON. It occurs to me that what Mr. Symington has really said in his report is that in carrying out the announced policy of Congress with reference to the disposal of surplus property and the disposal of these plants, in order to create competition, that he may not be able to do it except and unless the Congress support this program by subsidies or by providing other aids. I think that is what he is trying to say, that it may be impossible to carry out this policy unless the Congress supports such action.

Mr. SYMINGTON. That is right.

Senator O'MAHONEY. Mr. Symington, may I call attention to paragraph No. 9 of your conclusions, appearing on page 45 of your report to the Congress. It seems to me that this paragraph gives the gist of the point that is now under discussion. It reads as follows:

The problems of promoting new competition call for liberal terms of lease or sale of plants with prices to be determined by earning ability. It will be necessary for the Government to aid in offsetting the subsidized advantages of the Aluminum Co. of Canada.

Now what these terms or prices may be, and whether or not they constitute a subsidy, would depend, I take it, wholly upon the character of the terms and prices that were offered, themselves. Is that right, Mr. Symington; is that the way you feel about it?

Mr. SYMINGTON. Yes, sir.

Senator REVERCOMB. May I just make this comment. There isn't any doubt about it that this committee and the Congress is faced, in making determinations upon this hearing, with whether or not we are going to recommend aids or subsidies or whatever you may desire to term them, to compete with private industry. That is an issue before us.

Senator O'MAHONEY. Now what do you mean by competing with private industry; you don't mean the Government competing with private industry?

Senator REVERCOMB. Oh, yes; and I go so far as to say Government competing with private industry in the offer that was made or was spoken of yesterday by Mr. Husbands, where the Government was going to share in the profits and was certainly going to share in the losses.

Senator O'MAHONEY. The Aluminum Co. of America in the letter of July 24, 1945, clearly stated that it would have to be satisfied with the terms and conditions which the Government laid down before it would undertake to take over any plant, and it furthermore declared

that it wouldn't take one plant unless it also could have the other. So that it seems to me that the Surplus Property Board, in carrying out the express direction of Congress to reestablish a competitive economy, must be permitted to take into consideration ways and means of doing that without being accused of somehow or another improperly working against private enterprise. I confess it is difficult for me to see how a program which is frankly intended to promote competition in an industry can be termed by anybody a program to extend Government control and operation.

Senator REVERCOMB. Well, Mr. Chairman, let me say this. If Alcoa or any other company is guilty of dangerous monopoly, that must be ended. I am using Alcoa here because it seems to be the one company concerning which this issue has been raised. But I am not willing—while I was willing in times of war to see the Government go into any enterprise, just as much as taking the individuals and impressing them into service, yet we are setting up here a plan of future economy and it is my hope that we can do away with monopoly by anyone, Alcoa or anyone else, without putting the Government in business as a competitor with any private enterprise in this country, because I feel that the country is built on private enterprise, its greatness in industry has resulted from it and I don't want to see the courts change it.

Senator O'MAHONEY. Mr. Symington, may I ask you whether the Surplus Property Administration contemplates putting the Government in competition with private industry?

Mr. SYMINGTON. No, sir.

Senator WHERRY. Mr. Chairman, may I have a word?

Senator O'MAHONEY. Surely.

Senator WHERRY. Mr. Symington, in your statement you give three courses of action. The third one is Government aid. And I find in section 19 (c) the following words:

The Surplus Property Board recommends the third course of action to the Congress and will follow it unless the Congress directs otherwise under section 19 (c) of the act.

Now it seems to me, in view of the statement made by the witness, that they were in total agreement as to the reports of not only the Surplus Property Administration but the Senate Small Business Committee in making their recommendations, if I interpret that recommendation correctly that is the third alternative and that is the alternative that gives Government aid, whatever that is.

Mr. Cox. Senator Wherry, may I comment on that?

Senator WHERRY. Certainly, I would be glad to have you do so.

Mr. Cox. That statement refers not to the last sentence that Mr. Symington read but to the three disposal programs which are stated on pages 47 et seq. of the report. The recommended competitive program does not involve any subsidy because in my opinion, as I said yesterday, we have no authority to authorize any subsidy.

Senator WHERRY. Well, thank you for that contribution. I think it refers to the disposal and it is this comprehensive plan that you are talking about which in oral testimony has been stated as the plan recommended by the Surplus Property Administrator and the Senate Small Business Committee and the Attorney General for the disposal of these plants.

Now I would like to ask Mr. Berge a question. I think we are in full accord here that there is no authorization by Congress for the Surplus Property Administrator to pay an incentive subsidy; that it would have to come to Congress for that authority. Am I correct in that?

Mr. BERGE. I think so.

Senator WHERRY. Now then, if they lease the plants, Mr. Berge, as was suggested yesterday—you were not here and I rather hesitate to state the plan, but if I got it correctly it was a temporary lease on the basis that to get this competition through disposing of these plants that they lease them, and that in the event of a loss the Government would stand, I think it was 85 percent of the loss—is that correct, Mr. Husbands?

Mr. HUSBANDS. It would stand all of the loss the first year and 85 percent the second and third years.

Senator WHERRY. I would like to ask Mr. Berge if in his opinion you would have to come to Congress for that authority, or could Mr. Symington go ahead and lease the plants on those terms without Congress acting?

Mr. BERGE. Senator, I really don't know. I would really have to look at the law; I haven't considered that question.

Senator WHERRY. If you are going to look it up I wish you would give us your opinion in the record, and I would like to also ask you if the RFC can act on that basis without any more authority from Congress.

Mr. BERGE. We will check on that.

Senator WHERRY. Or any other Government agency that might have something to do with the disposal of these plants.

Mr. BERGE. Yes.

Senator O'MAHONEY. Mr. Cox would like to make a comment.

Mr. COX. I can tell you what my opinion is on that for what it is worth, and that is that we have no authority to make any arrangement that requires us to make a money payment. To put it in simpler terms I don't think there is anyone in the Government today authorized to write a check to any operator to make up an operating deficit.

Senator WHERRY. Are you authorized to make a lease on the basis that the Surplus Property Administrator or the RFC could carry out the terms suggested by Mr. Husbands, without authorization from Congress?

Mr. COX. If I understand it that lease would require us or might require us, if there was a loss, to make an out-of-pocket payment to make up the loss—is that right, Mr. Husbands?

Mr. HUSBANDS. That is true.

Mr. COX. I think we have no authority to do that.

Senator O'MAHONEY. Mr. Symington?

Mr. SYMINGTON. Mr. Chairman, I would like to ask Senator Wherry a question.

Senator O'MAHONEY. Now we will have the examiners examined.

Mr. SYMINGTON. We have got a little problem here, Senator. It doesn't seem so big any more but it still seems pretty large to me. We have got about 700 million dollars of the Government's money put into these aluminum plants and we have got instructions from the

court and the Attorney General's office with respect to what we can do with the most likely purchaser. Now if we have this house and we want to fix it up a little bit, or, for example, agree that if somebody will come in and take a chance on it that we will assume a temporary risk for, say, a year as the maximum, in order to try to move on that basis, for the taxpayers, the $700,000,000, would that be considered a subsidy?

Senator WHERRY. That is a rather long question. My theory is that we have no right to set up the Government in business because the out-of-pocket money in the final analysis might amount to considerably more than the physical valuation of these plants. And I don't believe that Congress, and I don't believe that you, have any right to set up the Government in business on that kind of a basis. Secondly, if I had those defense plants, and I said this last summer when it was hotter that it is today, I would scour the country to get private enterprise to take them over, and I wouldn't shut the doors. I would get my deal ready and then I would present it to the court.

EFFICIENCY OF ALCOA AND REYNOLDS PRAISED BY SENATOR WHERRY

I am just wondering Mr. Symington—of course, you are just a new man there, and I appreciate the way you testified—I don't think you and I disagree very much on your statement, but I don't believe that any door should be shut to Alcoa or Reynolds. I have a great deal of faith in this young competitor that has come up the hard way against Alcoa; and if they can do it, why can't others?

Mr. CASKIE. I believe that, but you must remember that we have competitors that have been subsidized; that is not an abstract proposition.

Senator WHERRY. That is true, but I would exhaust every resource to see if we can't sell the plants to private enterprise. I don't want a monopoly any more than you do, with Alcoa or Reynolds or anybody else, and I agree that if you can break them up legitimately, legally, that probably Senator O'Mahoney's position is correct here. I am not for centralizing industry in one basket, but I want to say that I don't know of a company that has done any better than Alcoa or Reynolds in the production of aluminum during this war. They have produced aluminum, and they have sold it at a price that is less than it was in 1939. Now, before you break up a company that is as efficient as that, you want to think a long time before you put some young company into existence here to whom you are going to lease the plant on the terms stated by Mr. Husbands, because, if you do, you are going to put the Government in business, and when you do you have got a monopoly-controlled institution, if you meet the efficiency of Reynolds and Alcoa.

Senator O'MAHONEY. May I interrupt to say that I don't quite follow Senator Wherry——

Senator WHERRY (interposing). Well, you never could.

Senator O'MAHONEY (continuing). On his conclusions. The assumption that any effort to protect little business will lead to Government control seems to me to be a complete non sequitur. The Senator is merely assuming the worst. Why can we not for once assume the best and presume that these gentlemen mean what they say, that they want to follow the instructions of Congress and reestablish competi-

tion by private industry in this business? Why should they be continually charged with a secret and undisclosed purpose of setting the Government up in this business? We are confronted with a positive fact; we know that with respect to one part of this industry, at least, the highest court in the land, through the circuit court of appeals which was sitting for it, said that we have a monopoly.

Senator WHERRY. In what?

Senator OMAHONEY. In primary aluminum.

Senator WHERRY. In ingots.

Senator O'MAHONEY. In the manufacture of primary aluminum. Now, then, the Surplus Property Administration, recognizing that statement of the court, and recognizing the instructions of Congress, is laying before us its recommendation for a disposal policy which will bring new enterprise, inedependent enterprise, free enterprise, into the picture. But instead of being commended for making such a recommendation these gentlemen are being scolded on the assumption that they mean something very different from what they say.

Senator REVERCOMB. Let me say that I am not scolding——

Senator O'MAHONEY. Oh well, I will absolve you. [Laughter.]

Senator WHERRY. Are you going to absolve me too?

Senator O'MAHONEY. I will absolve you too. [Laughter.]

Senator WHERRY. I am not scolding anybody, I like this man Berge. He is from Nebraska and I want to see him get along. [Laughter.]

Mr. BERGE. Thank you, Senator.

Senator O'MAHONEY. Now, Mr. Berge, you have been struggling to say something and we have shut you off. So you now have the floor.

Mr. BERGE. I would like to comment on a few points that have been raised.

Senator Wherry referred to the splendid wartime job of the companies who had the contracts, and of course nobody questions that. I think it is appropriate to observe, however, that they did it under huge Government subsidies, and we don't question either that that was warranted for the war.

Senator WHERRY. Where would you have been without the Aluminum Co. of America and Reynolds, regardless of those Government subsidies, and they came up the private enterprise way?

Mr. BERGE. I don't question that they did a good job, but if there had been three or four real competing companies they also would have done a good job. When a war comes along the Government has to deal with whoever we have to deal with, and I don't for a moment suggest that they or other companies in other industries who were in more or less monopolistic positions didn't do a good job when they gt under way and had Government help. But I think that that accentuates the present problem. The fact that they did have those subsidies, did have that Government help, now raises the question of whether you may not have to provide some kind of interim subsidies in order to get competition going again in the industry.

You referred, Senator Wherry, to scouring the country for buyers. That is not a function of the Department of Justice but I am sure I am not stepping out of bounds in saying that the other agencies have been doing that. But you can scour the country from now until doomsday and you are not going to get buyers unless the private

interests feel that they have got some chance of standing up against this huge integrated giant of the industry, and our problem now is how are we going to create conditions through which competitive private enterprise will come in. It seems to me that you have to consider proposals or suggestions such as came from Mr. Symington's report, or else face the fact that there won't be any buyers and go ahead then with a dissolution of Alcoa through the court, or legislatively provide for a monopoly in the aluminum industry, and I need not say that I would be opposed to the last of those courses.

Senator WHERRY. I think we would all be opposed to that.

Mr. BERGE. And I will say that the Department of Justice will go ahead with a dissolution program unless out of this there comes some solution to the monopoly situation.

Senator O'MAHONEY. Of course somebody may introduce a bill to turn the whole Government aluminum industry over to Alcoa. There is that possibility.

Mr. BERGE. Well that will, frankly, pose the issue.

Senator WHERRY. Reynolds ought to be in that bill too, hadn't they, Senator? Let's get them both in.

COMPLETE ALUMINUM MONOPOLY AT BEGINNING OF WAR

Mr. TROY. I wonder if Senator Wherry realizes the fact that there was a complete monopoly in aluminum at the beginning of the war and we spent $700,000,000 to introduce aluminum facilities where possibly we would have spent only $300,000,000 had there been competition and an ability to expand immediately in our own locality, thereby saving more than $400,000,000 of the Government's money.

Senator WHERRY. Of course there is some question whether we overbuilt, so that question fails right there. We built a lot of plants that we probably didn't need to build.

Mr. TROY. That was because there was a monopoly and no one was sure how the program would work out.

Senator WHERRY. The Reynolds organization built up their organization without any Government hand-outs. Of course they had some, but they risked their entire fortune.

Senator REVERCOMB. If I followed what you say, the fact that the Government spent $700,000,000 didn't result from a monopoly in the industry, it resulted from the fact that there was a sudden great need for aluminum, and as I understand it the Alcoa doubled its output, the Reynolds Metals Co. came into existence, and the Government stepped in, as it should have done, to increase this unusual sudden demand for aluminum. Even our own Government heads didn't know the needs for aluminum. The report on the aluminum question filed by Mr. William L. Batt, from which I have some excerpts, shows that from month to month almost they changed the requirements for aluminum. It was one of the most difficult problems the Government had in the War Department in conducting this war. Of course the Government went in and expended $700,000,000, and I don't think the fact that there was or was not a monopoly—I don't know whether there was or not—had anything to do with the Government's expenditure. It was to furnish this needed aluminum in the push of war.

Mr. TROY. I might point out to the Senator that the expansion of existing facilities would have been on a smoother basis, at lower cost, rather than starting and building up a gigantic industry because there was only one manipulator. There were no competitive contracts being offered to anyone else. No one could expand his facilities because none existed.

Senator REVERCOMB. Those in existence were expanded almost 100 percent.

Mr. TROY. What facilities do you have reference to?

Senator REVERCOMB. Those of Alcoa. They expanded as fast as they could, so far as Batt's report shows. Now here is the situation, and it gets back to this. Whether there had been 50 companies or 1 company or a half a dozen there would not be any more aluminum plants than the market would take at the beginning of this war.

Mr. TROY. My point is technical, Senator. When you can expand an existing facility rather than create an entire new industry, which is virtually what was done, that can be done at considerably less expense.

Senator REVERCOMB. Well, the facilities, whether they were in the name of one company or a dozen, were here and were expanded.

Mr. TROY. There were no competitive companies, no companies which offered preferable arrangements for the production of aluminum at that time.

Senator REVERCOMB. The only preference that you could talk about would be on price; the facilities were there.

Senator O'MAHONEY. Sometimes discussions of what might have been are rather fruitless.

Senator REVERCOMB. Even on hind sights.

Senator O'MAHONEY. That is right. But we have this fact, that in the steel industry there were some facilities which were not under control. In other words, I think it may reasonably be said that in steel production in the United States we did not have the monopolistic condition which the Court has found in the case of aluminum. As a result of that the point which Mr. Troy makes is this, that the steel facilities had to be expanded only 17 percent by Government investment, but because of the monopolistic condition in aluminum the war required an expansion of sevenfold, and that had to be done by Government investment. I think his point is that if there had been the same degree of competition in the aluminum industry that there was in the steel industry, the Government would not have been obliged to lay out $734,000,000 for the expansion of facilities.

Mr. TROY. That is correct, sir.

Senator REVERCOMB. Let me ask the Senator this. What was the comparative step-up in need for production between steel prior to the war and during the war, and aluminum prior to the war and during the war?

Senator O'MAHONEY. I don't know what the percentages are, but——

Senator REVERCOMB. That will answer you question. It didn't depend upon who owned or ran the mills; it depended upon the comparative increase in need for the article.

Senator O'MAHONEY. For the purposes of the war we had to build something like 84,000 war vessels, most of which were constructed of steel. We had to manufacture untold numbers of high-powered shells, a good part of which was made of steel. We had to expand our maritime fleet I don't know how many times. Certainly today we have the largest fleet that ever sailed upon the ocean—probably greater than any combination of maritime nations. That was made of steel.

Senator REVERCOMB. And we stopped building skyscrapers also.

Senator O'MAHONEY. I think that the expansion and use of steel for the purposes of war almost beggars description.

Mr. TROY. I think, myself, that in most cases your plants were built on the basis of personnel available rather than the economic standard of that plant; because there were only a handful of technical men who were available, it was necessary to spread out their know-how by taking a plant that was twice its economic size, spend twice as much money, and use half of it with the thought in the back of your mind that possibly some day the balance of it would be required, and they did that because the personnel was not available at the time.

Senator REVERCOMB. I am not debating the need of extensive competition. I will go along with you on that, but when you raise this question can you tell me how much more, in percent, steel was needed when war came, and how much more, in percent, aluminum was needed, over peacetime production? That will answer your question, I think.

Mr. TROY. I can answer that question in only one way, without facts or figures, and say that we were using considerably less aluminum than we should have been using prior to the war.

Senator WHERRY. Of course, your steel plants weren't free from overexpansion. Look at your Geneva plant—a $200,000,000 investment—and what are you going to do with it? The complete answer was competition, because you overbuilt in a lot of industries, and steel wasn't the only exception.

Mr. TROY. We were suffering from underconsumption before the war.

Senator O'MAHONEY. I think we will let you finish with your statement, Mr. Berge.

Mr. BERGE. I was going to observe, but I believe it has been covered by Mr. Troy, that while I can't cite the figures we have them, and I am sure the economists on this subject would pretty much agree, the aluminum industry before the war was an abnormally small industry as a whole—I mean small in comparison to the potential use of the metal—and I think that it can be demonstrated that the fact of monopoly control did greatly restrict the production and use of aluminum as compared to other industries where there were competing units.

Now I have, Mr. Chairman, only about a page and a half of my statement left to read. I can read it, although frankly I believe that the points have mostly been covered in our discussion. I would be glad to read it or I can put it into the record. If it won't trespass on your patience I will read the rest of it.

Senator O'MAHONEY. Then proceed on that basis, if you will, Mr. Berge.

MORE THAN "JUST BEST DISPOSAL PLAN" IS NECESSARY TO CREATE VIGOROUS COMPETITION IN ALUMINUM

Mr. BERGE. It would have been easier and more pleasant not to discuss just what is necessary to establish competition in the aluminum industry. Nevertheless we felt that Congress should have our judgment on this issue. Of course, a new process or technology applied boldly and resourcefully by an independent newcomer could make obsolete all the facts and analyses contained in all three reports. But short of such an unpredictable development, we in the Department of Justice still feel that to establish vigorous competition in the aluminum industry will require more than just the best disposal program.

In this connection I would like to call your attention to the closing words of Mr. Symington's report. He points out that although the Board has chosen that program which is most likely to promote competition, it nevertheless—

recognizes that conditions beyond its control may make this program impossible of accomplishment.

In that event the report goes on to say:

unless the courts dissolve or reorganize Alcoa under the Sherman Act, it will be for Congress to consider whether to leave the aluminum industry under the domination of one company or whether to authorize the Government, either by subsidized or direct operation of key plants, to provide some measure of production that is independent of Alcoa's control.

I want to make it clear that the reorganization of Alcoa is not suggested as a substitute for an aggressive disposal program. The degree of reorganization to be recommended to the Court will depend on how successful the disposal program is. The Department of Justice and the Surplus Property Administration, I am happy to say, see eye to eye on the disposal question. Every proposal or plan submitted for approval to us will get prompt attention and a quick reply. Our attitude toward it will be a practical one, fully aware of the necessity for hastening the reconversion process.

In closing I would suggest that the Government make it clear to industry, especially those who can and would use aluminum, that competition will be established in this industry, no matter what it takes. These hearings will help drive that point home and a specific program of action will go even further. The announcement of the RFC last month that it was canceling Alcoa's lease on certain Government plants to help "create competition" also had a wholesome effect. The proof is that the first formal bid for these plants came in response to that action, from Reynolds Metals Co. If bauxite and power are made available at a low enough cost, further interest in these plants will be shown.

Senator O'MAHONEY. Mr. Olds, will you take note of the reference to that cost of power, and Mr. Goldschmidt?

Mr. BERGE. But most of all, industry must be convinced that Government will continue its interest beyond the disposal of the public plants. On that score I can assure you that we will keep in close touch with conditions and take whatever action is necessary under the aluminum decision. There can be no question about the firmness of the Court's decision to make the aluminum industry competitive. If that objective is not achieved through the disposal of Government plants, then it will be achieved through the application of the Sherman Act in conformity with the opinion of the Court.

Senator REVERCOMB. May I just make one comment? Will you turn to page 6 of your statement? In view of a discussion that arose here I want to call attention to and emphasize a quotation from Mr. Symington's report as follows:

* * * It will be for Congress to consider whether to leave the aluminum industry under the domination of one company or whether to authorize the Government, either by subsidized or direct operation of key plants, to provide some measure of production that is independent of Alcoa's control.

There you see that we are confronted with two very important issues—whether Alcoa is to go on, even whether we decide whether or not it is in our opinion, regardless of what the Court says, a monopoly; or whether or not we are going to engage in subsidies with Government aid. I call that to your attention.

Senator O'MAHONEY. It also should be brought to the attention of those who are listening that that reference is introduced by the specific statement that it will be for Congress to determine. Therefore, we have a statement by the Surplus Property Administration which, in terms, is an explicit disavowal of authority to do it itself.

Senator REVERCOMB. There is no question about the authority, we don't debate that, we are all in agreement that the Surplus Property Administration does not have that authority.

UNLESS DISPOSAL PROGRAM CREATES COMPETITION, DISSOLUTION OF ALCOA MAY RESULT

Mr. BERGE. I might just close with the thought that unless the surplus Property disposal program is able effectively to create competition, we are faced with and we will have a dissolution of Alcoa, barring action by Congress to exempt Alcoa from the antitrust laws.

(Discussion off the record.)

Senator O'MAHONEY. The committee will stand in recess until 2:30 this afternoon.

Whereupon, at 12:30 p. m., the committee recessed until 2:30 p. m., of the same day).

AFTERNOON SESSION

Senator O'MAHONEY. The committee will be in session.

Mr. HUSBANDS. I see you have taken your seat and are ready to proceed.

STATEMENT OF SAM H. HUSBANDS, MEMBER, BOARD OF DIRECTORS, RECONSTRUCTION FINANCE CORPORATION

Mr. HUSBANDS. Mr. Chairman, I have no prepared statement on this subject. I am prepared to answer any question you might like to ask which comes within the province of the RFC.

Mr. Symington's report covers the extent of the ownership of plants by RFC, so I won't expand on that.

ONLY THREE ECONOMICAL PLANTS—SPOKANE, JONES MILL, AND HURRICANE CREEK

From our experience, we think that the three economical plants which we have are the Spokane, the Jones Mills, and the Hurricane Creek alumina plants. The rest of the plants, due to high power costs primarily, probably will not be economical.

Senator O'MAHONEY. Will you list those plants again, please?

Mr. HUSBANDS. That is Spokane, Wash., or Mead, in Washington; Troutdale, Oreg., and Jones Mills, Ark. These plants have capacities of alumina metal of approximately 512,000,000 pounds.

Those are all now under the management of Alcoa.

Then, the Hurricane Creek alumina plant has proven to be economical.

Here I have our brochures for each of these plants for the committee, if they would like to look at them.

Senator MAYBANK. You stated that because of low power costs these would be economical?

Mr. HUSBANDS. Yes, sir.

Senator MAYBANK. Did the Government have anything to do with the lower power cost?

Mr. HUSBANDS. Yes, sir. At Troutdale, Oreg., and Mead, Wash., the power is from the Bonneville Power Authority.

Senator MAYBANK. Was it a complete grant?

Mr. HUSBANDS. No, sir. The RFC paid the full commercial rate for power, which is about 2 mills per kilowatt-hour.

Senator O'MAHONEY. But that was a lower rate for power than was available in other parts of the country?

Mr. HUSBANDS. That is correct; yes, sir.

Senator MAYBANK. Why is it lower?

Mr. HUSBANDS. Those are the rates they have established.

Senator MAYBANK. Who built those dams?

Mr. HUSBANDS. The Government.

Senator MAYBANK. Does the State owe anything against it?

Mr. HUSBANDS. I really don't know.

Senator O'MAHONEY. Mr. Goldschmidt can answer that question.

Mr. GOLDSCHMIDT. Yes.

Senator MAYBANK. What arrangement have you got as to the repayment of money for those dams?

Mr. GOLDSCHMIDT. Under the Bonneville Act we have to repay those dams with interest in a reasonable period of years.

Senator MAYBANK. The total amount of power?

Mr. GOLDSCHMIDT. The total power allocation; yes, sir.

Senator MAYBANK. I mean the dam itself.

Mr. GOLDSCHMIDT. Yes; it is the allocation of power.

Senator MAYBANK. Was it 100 percent or 55–45?

Was there a loan and grant?

Mr. GOLDSCHMIDT. No, there was no grant, Senator.

Senator MAYBANK. That is what I want to get down to.

Mr. GOLDSCHMIDT. There was no loan and grant. The Bonneville project was built by the Corps of Engineers of the War Department and the power is sold under the provisions of the Bonneville Act by the Bonneville Power Administration in the Department of the Interior.

Under that Bonneville Act we are required to charge rates, subject to the approval of the Federal Power Commission, that will repay the cost of the power facilities and the joint facilities allocated to power in a reasonable period of years.

Senator MAYBANK. How much interest is it, on the money?

Mr. GOLDSCHMIDT. Two and a half percent.

Senator O'MAHONEY. What other plants have the advantage of this power rate?

Mr. HUSBANDS. The plant at Jones Mills, Ark., has the advantage of having its own gas-fired engine within the plant on two of the pot lines. There are four pot lines there. Their power cost is approximately 3 mills to generate.

Senator O'MAHONEY. That gas-fired engine, of course, is a Government-owned apparatus?

Mr. HUSBANDS. Yes, sir; that is an integral part of the plant.

Senator O'MAHONEY. What about Spokane, Wash.?

Mr. HUSBANDS. That is Bonneville power.

Senator MAYBANK. The difference between Arkansas and Spokane is that you perhaps might subsidize Arkansas whereas in Spokane they pay the same as anybody else. When I say "subsidize," I mean make arrangements for certain rates.

Mr. HUSBANDS. That is true, yes.

Senator MAYBANK. What would the extent of the subsidy be in so much per kilowatt hour?

Mr. HUSBANDS. At Jones Mills, Ark., of course the power interests there referred to operate right along with the aluminum plant there in the plant, so if the plant was leased to a concern, the power plant would be leased along with the aluminum manufacturing facilities.

Senator MCCLELLAN. The power is a part of the plant facilities.

Senator MAYBANK. There were Government loans involved?

Mr. HUSBANDS. That is right. Government ownership is what it is.

Senator MAYBANK. And in Washington, it is only that part of the Government that perhaps might be in the 2½ percent interest rate on the allotted power firms of Bonneville development.

Mr. HUSBANDS. You understand, in Troutdale and Spokane you have two separate Government ownerships. The Government here owns an aluminum plant, the Bonneville Power Administration owns the dams, you see, and two separate and distinct entities of the Government are involved.

Senator MAYBANK. What interest rate would they pay, for instance, on this plant at Arkansas? I understand, of course, that the Government owns it, but what would you presume to be a fair interest rate if you leased it?

Mr. HUSBANDS. I think if I go into my testimony for a few minutes, you will get that.

RATES FOR POWER VARY AS BETWEEN PLANTS

Senator O'MAHONEY. Before you do that, I want to develop this situation. You have the two plants at Spokane and Troutdale which are receiving their power from Bonneville at a rather low rate. You have a plant at Los Angeles, Calif., which is also receiving Government power from the Boulder Dam.

Mr. HUSBANDS. Well, I should say that power in bought from the city of Los Angeles, which, in turn, has a long-term contract with Boulder, which was entered into when the dam was built.

Senator O'MAHONEY. What is the difference in the rates there?

Mr. HUSBANDS. The rate at Los Angeles is almost 4 mills per kilowatt-hour.

Senator O'MAHONEY. And the rate at Troutdale?

Mr. HUSBANDS. Approximately 2 mills.

Senator O'MAHONEY. What about the rate at Shipshaw?

Mr. HUHSBANDS. I really don't know, Senator.

Senator O'MAHONEY. The RFC financed that plant, did it not?

Mr. HUSBANDS. You mean the Canadian plant?

Mr. O'MAHONEY. Yes.

Mr. HUSBANDS. That gets back into the history of that old deal, and the RFC, as you know, bought aluminum up there and has paid for it. We have got the aluminum and they have got the money.

Senator O'MAHONEY. Well, I was just making a short cut. The RFC built the Shipshaw plant by purchases of aluminum?

Mr. HUSBANDS. Well, I would say that the RFC purchased aluminum and the people who sold it apparently built the plant from the proceeds of the sale.

Senator O'MAHONEY. What is the cost of power developed there?

Mr. HUSBANDS. I really don't know, Senator.

Senator O'MAHONEY. That, of course, is operated by the Aluminum Co. of Canada?

Mr. HUSBANDS. I would presume so; yes.

Mr. MOMENT. I am speaking for the Surplus Board. Our estimate in our report is that their costs would be about a half a mill for the production of power for aluminum.

Senator O'MAHONEY. The cost at Shipshaw?

Mr. MOMENT. Half a mill a kilowatt hour.

Mr. TROY. I just want to say that the most recent estimate on the part of the water power department for the city of Los Angeles, according to the amount of power, would be 2½ mills for power for limited amounts, compared to Mr. Husbands' estimate on past performance, which was at 4 mills.

Senator O'MAHONEY. Who made that statement, to whom, and why?

Mr. TROY. The estimate was given out in a report by the City Water Power Department of Los Angeles in a direct letter to the Surplus Property Board, in which they set forth the possibility of their developing 70,000 kilowatts at 2½ mills.

Senator O'MAHONEY. In other words, there is a reasonable possibility that that lower rate could be obtained?

Mr. TROY. Very definitely it is a possibility, since I have just come back to Los Angeles. They have also given me this document which I would like to introduce. I am not a power expert, but this somewhat answers the question as to allocation of power costs and the building of the dam by river control on the basis of what is being allotted in the Northwest and what is being allotted at Boulder Dam. It carries the figures which I think the Senator here was interested in.

Senator O'MAHONEY. This purports to be the allocation of costs, Boulder project versus Bonneville-Coulee project with respect to power.

Mr. TROY. That was the initial allocable cost.

Senator O'MAHONEY. Of flood control, irrigation, and the like?

Mr. TROY. Yes.

Senator O'MAHONEY. What is the authority for this table?

Mr. TROY. That was figured out by Mr. Scattergood, engineer of the city department of water power of the city of Los Angeles.

Senator O'MAHONEY. I am asking these questions merely to identify it for the record so that any person consulting it will know the authority.

Inasmuch as Mr. Scattergood will be here later himself, I think it probably will be preferable if we withhold this from the record until he comes so that he will have the responsibility for it. Is that agreeable to you?

Mr. TROY. Perfectly, sir.

Senator O'MAHONEY. I would prefer to have this presented by the engineer of Los Angeles, and I will return this to you for the present.

Senator Maybank, did you have a comment you wished to make?

Senator MAYBANK. I have no comment to make, except to ask a few questions about that, as to refinancing, and so forth.

I understand from Mr. Husbands that the power varies from ½ mill to 4 mills?

Mr. HUSBANDS. Oh, if you include the Canadian, and that figure is correct, of course that is true.

Senator MAYBANK. If you take in the Canadian electric power estimate under the considerations which you cited, and go from there to Los Angeles, it runs all the way from ½ mill to 4 mills?

Mr. HUSBANDS. That is right. I might go further and say it goes up to 6¾ mills when you go up to Long Island, N. Y.

Senator MAYBANK. The main cost in aluminum is the electric power, and therefore if there be any monopoly on anything it would come through electric power?

Mr. HUSBANDS. I do not understand.

Senator MAYBANK. In the cost of production electric power is the main cost.

Mr. HUSBANDS. Well, yes, the person who has low power cost, of course, has the advantage.

Senator O'MAHONEY. It would appear from what you say that the lowest cost power is that which is provided by the Government.

BONNEVILLE OFFERS POWER AT LOWER RATES THAN OTHER SOURCES

Mr. HUSBANDS. That is true, Senator, but there is on thing I should bring out here, which is that under the commercial type contract with Bonneville, they require a demand charge; that is, that you buy your power. If you don't use it, your costs run up.

As an illustration, at Troutdale, Oreg., I believe our annual power bill was $2,300,000, whether it was used or not. That means if you operate at 50 percent of capacity and you have signed up a contract for 132,000 kilowatts your power is 4 mills rather than 2 mills, because you only use half of it.

Senator O'MAHONEY. But, by and large, the Bonneville project is offering power at a lower rate than apparently is available from any other source?

Mr. HUSBANDS. That is true, yes.

Senator O'MAHONEY. Except that if the Canadian story is correctly represented here, power is available there at much less cost?

Mr. HUSBANDS. That is right.

Mr. GOLDSCHMIDT. I think that studies have shown that the lowest cost of power purchased was for power from the Northwest projects. That is mainly due to the fact that those projects are exceedingly sound. The Columbia River is a peculiar natural resource, a very fine one, and the projects are exceedingly sound.

The charges which Mr. Husbands refers to for capacity were necessitated by the fact that the capacity was put into the Bonneville Dam largely in order to meet the problem of supplying power for the aluminum operations up there, and the need for those provisions in the contract to permit the repayment of the Bonneville charges was based on the fact that we had no right in law, or any other way, to subsidize these wartime plant operations. We had to enter into a business-type contract, both with Alcoa, with Reynolds, and with the Government-owned aluminum facilities.

To be sure, the use of power in those plants went up and down in either the private or the publicly owned plants and the purchaser had to meet those prime costs which we had to meet by law.

Senator O'MAHONEY. In other words, you are saying that in these Government-owned plants, the power was sold on a commercial basis?

Mr. GOLDSCHMIDT. That is right.

Senator O'MAHONEY. In other words, you charged a rate which was necessary to meet your obligations.

Now, who can speak about the TVA?

Senator MAYBANK. Let me make this one suggestion, Mr. Goldschmidt. I have no idea of what the Government did in these instances, but to meet these obligations, it comes back to the question of how much interest you are going to pay.

Senator O'MAHONEY. How about TVA?

Mr. HUSBANDS. We have no connection with TVA in our projects.

Mr. MOMENT. Senator, in the Surplus Property Board, we do compare the costs of power to all of the Government plants and the estimated cost to the Alcoa plants, and we have checked these with the Federal Power Commission, TVA, and so on. They are in the report.

Senator O'MAHONEY. What page of the report?

Mr. MOMENT. Page 83 of the report.

Senator O'MAHONEY. Mr. Husbands, you may proceed now.

PROFITS ACCRUING TO SOME GOVERNMENT-OWNED PLANTS

Mr. HUSBANDS. In the operation of these plants, since their beginning, in the latter part of 1942, approximately 2½ years, under the Alcoa contract, there have resulted profits to the RFC as follows:

At Troutdale, there was produced 262,000,000 pounds of aluminum, with profits to the Government of $3,300,000, in round figures.

At Mead, Wash., it was 461,358,000 pounds of aluminum.

Senator O'MAHONEY. When you speak of Mead, where is that?

Mr. HUSBANDS. It is Spokane, Wash. It is a small town outside of Spokane. The profit was approximately $9,300,000.

At Jones Mills, Ark., it was 346,540,000 pounds produced, and the profit was $4,974,000. That was after we paid excess power bills

there of $4,738,000. By that I mean half of the Jones Mills, Ark., plant power rate was low. The other half we had to buy from REA and Arkansas Power & Light. That half of the power ran from 5 to 6½ mills.

Senator STEWART. By excess, you paid more than the average original cost price?

Mr. HUSBANDS. That is right; above 3 mills was $4,378,000.

Senator STEWART. That was acquired from the REA?

Mr. HUSBANDS. The Arkansas Power & Light provided about 35,000 kilowatts and REA supplied about 35,000 kilowatts. REA's rate was 5 mills, and Arkansas Power was about 6¾ mills.

Senator STEWART. What do you mean by profits?

Mr. HUSBANDS. I mean by that that under the Alcoa contract the RFC was paid 85 percent of the profits that were made, and this is the RFC share of the profits.

Senator STEWART. And Alcoa made 15 percent?

Mr. HUSBANDS. That is right.

Mr. BORCHARDT. That means that the Government was the only purchaser of the metal?

Mr. HUSBANDS. That is right.

Mr. BORCHARDT. In other words, the Government paid to RFC the profit indirectly?

Mr. HUSBANDS. That is true of all war contractors during the war. They sold most of their stuff to the Government, but at 14 cents a pound for pig aluminum, that resulted in these figures I have just given you.

Mr. OLDS. Mr. Chairman, might I comment on that?

Senator O'MAHONEY. Mr. Olds.

Mr. OLDS. Mr. Husbands has suggested that half the power that was supplied for the Jones Mill plant was supplied at a relatively high cost. I think it ranged from 5 to 7 mills a kilowatt-hour. There was a reason for that. The Jones Mill steam plant, which was constructed and practically completed except for the generator units, was left standing idle while equivalent generator units were assigned by the War Production Board to the plants of the ALMNO System, which is the Arkansas-Louisiana Power and Light System.

Senator STEWART. What was that?

Mr. OLDS. The ALMNO. It is Arkansas, Louisiana, and New Orleans. It is an interconnected system down there. There is the Mississippi River Power & Light Co. included in that, too.

They had units to dispose of at that time, and the units were placed in the power plants which were selling the Government the power between 6 and 7 mills instead of being put in the plant that had already been constructed by the Government in which they would have made power available with a natural gas supply at just under 3 mills a kilowatt-hour.

I think that ought to be put in the record in connection with this suggestion.

Mr. HUSBANDS. At the Hurricane Creek alumina plant, there was 2,425,000,000 pounds of alumina made, and the profit there was $21,220,000 to the Government.

That makes a total of around $42,000,000 from these four operations.

Senator STEWART. That is operating profits, not taxes?

Mr. HUSBANDS. No, no, that is just cash coming into the Government. It does include depreciation, because under our contract with Alcoa they pay out depreciation first on the plant, and then the remainder of the profits are split, 15 percent to Alcoa and 85 percent to RFC. It is the result of that operation.

I might say that these figures are unaudited for 1944 and 1945.

Mr. CASKIE. Could I ask a question about that?

What additional did RFC pay to Alcoa in addition to the 15 percent profit in the way of indirect overhead payment?

Mr. HUSBANDS. The RFC paid Alcoa 4 percent of the sales of aluminum as indirect overhead. It paid, however, no overhead on the alumina operations, provided the alumina went into the aluminum plants run by Alcoa for the Government. This was after paying overhead to Alcoa.

Mr. CASKIE. But could you furnish the record with the amount that RFC paid Alcoa in addition to the 15 percent of the profit as indirect overhead?

Mr. HUSBANDS. Yes; if the committee wishes, I think we would be able to get that figure.

Mr. CASKIE. Well, it gives the return that Alcoa received from the operation of the plant along with your return which you have just given.

OPERATION OF PLANTS ON PROFIT BASIS IN PEACETIME DEPENDS UPON VARIOUS CONDITIONS

Mr. ANDERSON. Mr. Husbands, you would not want to leave this listing of plants which had particular power rates with the impression which I think you gave, or at least you gave to me, that some plants because of the power rate in wartime or under wartime conditions would be uneconomical to operate and would give you unusual difficulties in disposing of them in peacetime. Was that the impression?

Mr. HUSBANDS. Up to the present time, Dr. Anderson, of course we have had no adjustment in power rates to make these plants economical. We are always anxious, of course, to get lower rates, and I see no reason why several more could not be made economical if you can get the lower power rates.

Mr. ANDERSON. So the power rate matter is not by any means settled there, and it is objectionable and depends upon the number of conditions that could be met?

Mr. HUSBANDS. That is correct.

Mr. CASKIE. If you have an objection to furnishing the figures, I will withdraw the request.

Mr. HUSBANDS. I have no objection at all to furnishing the figures.

Senator O'MAHONEY. I am sure he has no objection to furnishing them. It will be an important item of information.

Mr. HUSBANDS. All right, sir.

Senator STEWART. Was Alcoa very cooperative with you during the operation of these plants during the war?

Mr. HUSBANDS. Very much so; yes. They were very efficient, very cooperative, and we had no argument or trouble.

Senator STEWART. How many plants did they have?

Mr. HUSBANDS. They operated eight aluminum plants and two alumina plants for us, and then they also leased some fabricating facilities.

Senator STEWART. Those plants were scattered over the country?

Mr. HUSBANDS. Yes, sir. If you like, I will give you the names and locations.

Senator STEWART. I would like to have them.

Senator O'MAHONEY. The list of all those plants is to be found in the record, Senator.

Senator STEWART. Would it be asking too much to put it into this record?

Senator O'MAHONEY. Not at all.

CAPACITY OF PLANTS STATED

Mr. HUSBANDS. There was a plant at Burlington, N. J., with a capacity of 108,000,000 pounds; Jones Mills, Ark., 152,000,000 pounds; Los Angeles, Calif., 185,000,000 pounds; Queens, N. Y., 296,000,000 pounds; Riverbank, Calif, 110,000,000 pounds; Spokane, Wash., 218,000,000 pounds; Massena, N. Y., 107,000,000 pounds; and Troutdale, Oreg., 141,000,000 pounds.

Then the alumina plants were located at Hurricane Creek, Ark., with a capacity of 1,555,000,000 pounds, and Baton Rouge, La., with a capacity of 1,000,000,000 pounds.

Senator STEWART. Mr. Husbands, are you familiar with the court decision in the monopoly case against Alcoa?

Mr. HUSBANDS. I am to an extent, Senator.

Senator STEWART. Is a portion of that yet undecided, or what is it? I am not familiar with it in its entirety, but I had understood that there had been no decision yet made as to whether Alcoa was a monopoly, and that would not be decided until after a disposal of this surplus property that Mr. Symington has testified about.

Mr. HUSBANDS. I think you should refer to our legal counsel, Mr. Goodloe.

Senator STEWART. I just want to know if that is correct.

Mr. HUSBANDS. I think he can answer that question.

Senator O'MAHONEY. Senator, may I say that was developed this morning by the Attorney General. The general agreement is this: The court did find that Alcoa is a monopoly so far as the manufacture of primary aluminum is concerned.

Senator STEWART. That is what you call pig?

Senator O'MAHONEY. Yes. The court did not enter a dissolution decree, because it felt that was a matter should not be judged until after the disposal of Government plants had taken place.

Senator STEWART. Those are the plants that Mr. Symington testified about that are surplus plants now?

Senator O'MAHONEY. That is right, so that what the court withheld was merely the decree of dissolution.

Senator STEWART. Then, the court is retaining in its own breast the question as to what a monopoly is with respect to the owning of plants; is that right?

Senator O'MAHONEY. No.

Senator STEWART. I wasn't present when that happened this morning.

Senator O'MAHONEY. The decision is available, Senator.

Senator STEWART. My ignorance about the subject is quite refreshing Senator, I am sure; but nevertheless I cannot refrain from desiring to be informed a little.

Is it proper to ask this question: Will the court render another decree on the subject?

Senator O'MAHONEY. Yes; here is the decision [indicating].

Senator REVERCOMB. Mr. Chairman, let me make an inquiry for information. Does the term "primary aluminum" mean ingot?

Mr. HUSBANDS. It means pig, sir.

Senator REVERCOMB. Well, that is the ingot?

Mr. HUSBANDS. Ingot is one more step where you have alloys.

Senator REVERCOMB. The court in that case, if I may read from the opinion again, held there was monopolistic activity with respect to ingot, and went no further. Is that correct, sir?

Mr. GOODLOE. That is my understanding, but Mr. Berge is more familiar with that.

Mr. TROY. I want to say something about ingot and pig.

Pig is the primary result of the electrolytic operations. That is the source of all aluminum, the pig, which comes out of the electrolytic reduction parts. Subsequent to that, the pigs are merely taken and remelted, cleaned up from some of the impurities, and then alloyed with copper or silicate to make ingots. There is no limitation on the number of people that can take this original pig as it comes out and alloy it. Anybody with a small $500 unit can remelt this metal, clean it up and alloy it, and it is done all the time.

The only place you find pig is at the basic source of the material at the induction furnace. In other words, it is the primary step as it comes out of these parts. The step there is very inconsequential. The manufacture of pig aluminum is the important material; the ingot is not.

That is why the court recognized that the primary production—that is, the pig production and not the ingot—is of the essence in the production of aluminum.

Senator REVERCOMB. I am glad to have that information.

I take it the court, in making its decision, certainly had that information before it, and therefore when the court used the word "ingot" it used it advisedly, and the court held that monopolistic practice applied only to ingots.

Mr. TROY. That is right.

Senator O'MAHONEY. Proceed, Mr. Husbands.

EFFORTS OF RFC TO SELL PLANTS DESCRIBED

Mr. HUSBANDS. As to the RFC's efforts to dispose of these plants, last February 21 I wrote a letter to all of the concerns in the United States who were in the business affiliated with aluminum or like metals. There were 57 of those, and the replies that we got were rather indefinite. We followed up, and nothing of a definite nature has developed except what I will state in a few minutes.

Again, on August 30, 1945, Mr. Symington and myself sent a joint telegram to 224 companies, including steel companies, inviting their interest in these aluminum facilities.

Senator O'MAHONEY. Will you read the telegram into the record, please?

Mr. HUSBANDS. The telegram reads as follows:

> With the premise that the present leasing situation on Government-owned aluminum and alumina plants can be satisfactorily resolved and an adequate supply of bauxite at a competitive price assured, please advise the Reconstruction Finance Corporation immediately whether your company would be interested in the purchase or lease of any Government-owned aluminum or alumina plants, and if so on what basis.

That wire was sent on August 30, of this year.

Senator O'MAHONEY. To how many firms?

Mr. HUSBANDS. 224 firms, and we got 13 replies that might be construed as being partially favorable. All but six of those referred to fabricating plants rather than the reduction plants, and we have followed those up; but nothing has developed up to the present time except the two offers which I have here, and if the committee likes I will explain them.

Senator O'MAHONEY. I think it is very pertinent to the hearing that you should explain them.

REYNOLDS' OFFER CONTEMPLATED 5-YEAR LEASE

Mr. HUSBANDS. We have received an offer from the Reynolds Metals Co. dated September 25, 1945, addressed to Mr. Symington and myself. This letter was written, and I have since talked to Reynolds Metals Co., and I asked them if they could revise this offer to the point where it would be more near a commercial lease and leaving obligations of the Government to a minimum, but they advised that this is as far as they are willing to go.

It, in substance, says that they would like to have a 5-year lease, speaking now of the Spokane-Troutdale, the Jones Mills aluminum plants and the Hurricane Creek plant—that they would like the Government to purchase any surplus aluminum which they might make at 14 cents for pig and 15 cents for ingot, and that they shall hold such aluminum as a stock pile.

They proposed that the RFC would receive the depreciation on those facilities which are used and 85 percent of the profits, Reynolds to secure 15 percent. That is the first year. The RFC is to stand all losses.

Beginning with the second year and thereafter, Reynolds proposes to stand 15 percent of the losses. The RFC shall supply 85 percent of the working capital at 3 percent interest. The RFC shall be required to obtain licenses under the patents which Alcoa owns on the alumina operations.

The RFC shall have the right to cancel on 6 months' notice whenever aggregate rentals for two consecutive quarters are not equivalent to an annual rental of $1,000,000,000.

Then, the Reynolds Metals Co. is to have an option. Reynolds shall have the option during the lease to buy any or all of the plant subject to the terms of the Surplus Property Disposal Act, including provision relating to the Attorney General, under the following terms. The peacetime reproduction value of the useful facilities shall be immediately appraised. From such appraised value shall be deducted depreciation from the date of construction to the date of purchase at customary DPC rates of 12 percent on machinery, of 5 on buildings, and three-fourths of the profit and rental received by RFC during Reynolds' operation. Interest at 3 percent on the depreciating value

of the plant shall be added. The terms are to be notes bearing interest at 3 percent, secured by mortgages on the plants, principal payments to be made in equal annual installments over a 30-year period.

Also, if Reynolds elects not to exercise its option, it shall have the right to buy any plant if it meets the best offer received by the Government. That, in substance, is Reynolds' offer.

Senator O'MAHONEY. Mr. Caskie, does that seem to be a correct summary?

Mr. CASKIE. That is a very fair summary. I think I could have said a little more in behalf of the Reynolds' offer had I had an opportunity to present it.

I would like to ask Mr. Husbands what does the depreciation amount to in a year?

Mr. HUSBANDS. On the plan it runs about 5 percent, over-all, in our calculations.

Mr. CASKIE. So under Reynolds' proposal, as you have just announced it, you would first get the 5-percent investment for the 5 years which would be 25 percent over the 5-year lease period, and in addition get 85 percent of the profits?

Mr. HUSBANDS. That is on the facilities used; yes.

Mr. CASKIE. You are to be paid your 85 percent of the profits before income taxes, and Reynolds' 15 percent would be subject to income taxes, and you would get some part of that. In all cases, Reynolds assumes 15 percent of any losses that may be sustained, but never realizes 15 percent of the profits. Is that correct?

Mr. HUSBANDS. At the end of the first year, Reynolds' proposition is that they will assume 15 percent of the losses.

Senator O'MAHONEY. For the first year, however, Reynolds would not assume the losses.

Mr. CASKIE. Not any part of it, because we do not know the condition of the plant or anything else.

Senator STEWART. Substantially, what is the difference in that and the wartime contracts?

Mr. CASKIE. No loss at all was sustained by the operators during the war, Senator.

Mr. TROY. May I inquire on these plants listed here for aluminum whether the companies sustained loss on those plants showing losses?

Mr. HUSBANDS. Yes; a number of the plants showed a loss. The net figure to the RFC, I might state Mr. Wilson, of Alcoa, tells me, will aggregate approximately $29,000,000 because there were losses in operation on at least four of these plants.

Senator WHERRY. The total profit was $29,000,000?

Mr. HUSBANDS. Yes, sir; that is the figure Mr. Wilson gives me as unaudited figures, and they are generally accurate.

Senator O'MAHONEY. That means a $13,000,000 loss on other plants?

Mr. HUSBANDS. That is correct, sir.

Senator REVERCOMB. Do I understand that 5 percent is to be paid to RFC yearly as a depreciation figure?

Mr. HUSBANDS. That is correct, sir.

Senator REVERCOMB. Does not the offer also provide that in the event the lessee elects to purchase, that 5 percent that has been paid for depreciation goes on the reduction in purchase price, too?

Mr. HUSBANDS. That is correct, and also three-fourths of the profits RFC makes.

Senator REVERCOMB. So, if he elects to purchase, that depreciation is not a profit to RFC at all, is it?

Mr. HUSBANDS. No.

Senator REVERCOMB. What is your plan, Mr. Husbands, about the acceptance of that offer at this time?

Mr. HUSBANDS. I would not lease plants on this basis, unless it was indicated to us by Congress that we should proceed this way.

Senator REVERCOMB. You understand that under the act there is a 30-day limitation for action by the Congress, and that time of limitation will expire on the 21st of this month.

Suppose the Congress has not acted by the 21st. What is your position about that?

Mr. HUSBANDS. Our position is that we would be guided by the Surplus Property Administrator, who fixes the policy. We have nothing to do with that, sir.

Senator REVERCOMB. In other words, if Congress hasn't acted by the 21st of this month with respect to this very important matter as to policy, you would turn to the Administrator of Surplus Property and be guided by him as to whether or not you would accept that offer?

Mr. HUSBANDS. That is correct, sir.

Senator REVERCOMB. That is a very important thing to the Congress, because there is a very short time in which it can act. I had hoped that we might hear from Mr. Symington on that, and I hope no precipitous action will be taken without the action of Congress on the subject.

Senator STEWART. May I ask: What is the objection to the contract, Mr. Husbands? You say you would not recommend accepting it.

OBJECTIONS STATED TO SUGGESTION THAT GOVERNMENT GUARANTEE LOSSES IN PLANT OPERATIONS

Mr. HUSBANDS. Yes, for the reason the Government is called upon to guarantee the losses, Senator, and it smacks of a subsidy. I have stated all along that type of contract is the only type that has come to our attention in this connection, and if it were the policy of Congress to accept this type of contract, we would be glad to refine it and get the best we could on this basis.

Senator STEWART. Your objection is that it would require the Government to replace losses?

Mr. HUSBANDS. That is right.

Senator STEWART. That is the reason I asked what was the difference between this and the wartime contracts.

Mr. CASKIE. The operators assume no loss during the wartime.

Senator STEWART. According to Mr. Husbands, they do not assume any here.

Mr. CASKIE. I wish Mr. Husbands would point out where it is possible for us to escape sustaining any part of the loss. We say we don't sustain 15 percent.

Mr. HUSBANDS. With just a little arithmetic on this deal, I might figure this out, speaking of the overhead. These plants have a capacity of about 512,000,000 pounds. Now, Reynolds will supply the overhead,

as Alcoa did in the war contracts. According to the terms, if he manufactured 512,000,000 pounds, Reynolds would get $3,269,000 for overhead.

I am not assuming that is a profit to Reynolds. I am assuming that is a legitimate overhead. On the other hand, Reynolds would have to lose 4 cents a pound in operations before he would wipe out the overhead which he collects.

Mr. CASKIE. But the overhead costs him something.

Mr. HUSBANDS. I know it does. I am trying to weigh what you are contributing to the picture, and I am saying that you would get overhead of $3,269,000 if you operated at 512,000,000, and you would have to lose 4 cents a pound in operation before you would lose your reimbursement for overhead.

Senator WHERRY. At what price is that figured?

Mr. HUSBANDS. Fourteen cents a pound, sir.

Mr. CASKIE. Let me ask you this. Isn't the Reynolds proposition a better one for the Government than the one that you outlined in a letter to Mr. Symington where the Government assumed all losses that might occur?

Mr. HUSBANDS. The one I outlined to Mr. Symington was nearly about four paragraphs in which I suggested the principle if Congress determined these should be leased. I didn't suggest the refinements which you have in here.

Senator O'MAHONEY. With respect to this particular offer, as I understand it, the Government would be required to sustain whatever loss was incurred during the first year.

Mr. HUSBANDS. That is correct. And the second year and 3 years thereafter, if there were any losses the Government would sustain 85 percent and Reynolds 15 percent?

Senator O'MAHONEY. But with respect to profits, the Government, after having paid or allowed deduction for depreciation would receive 85 percent of the profit and Reynolds 15 percent?

Mr. HUSBANDS. That is correct, sir.

ON AUTHORITY OF SURPLUS PROPERTY ADMINISTRATION TO MAKE INCENTIVE LEASES

Mr. BORCHARDT. I believe Mr. Cox stated this morning that under the Surplus Property Act he didn't believe the Surplus Property Administration or the RFC would have power to enter into that type of contract. Do you believe that RFC under its own act, the RFC Act, has power to accept this offer from Reynolds as a matter of law?

Mr. HUSBANDS. I don't know. That is a pretty close question. Mr. Goodloe, our general counsel, might be able to answer that. I don't know whether he would want to commit himself one way or the other, but I would be glad to have him speak on it.

Mr. GOODLOE. I have discussed this matter with Mr. Cox, and I heard his testimony this morning. If it is viewed as an incentive rental, so that the losses in 1 year might be offset against the potential profits for succeeding years, it seems to me that we do have the authority to make this type of lease under the Surplus Property Act.

The main question (I believe that Mr. Cox indicated some reservation on this morning) was whether or not, if over the 5-year period there should result a net loss to the Government, the Government would have the authority to pay out of pocket the net loss. With respect to that—this is not my considered judgment but sort of a curbstone opinion—first, if the board of directors of R. F. C. as the disposal agency, with the approval of Mr. Symington, finds this is the best method of achieving the objectives of the Surplus Property Act, and, second, if they have a basis for and do make a finding that this type of incentive rental on an average basis for 5 years, or any other period, would likely produce a net profit, and possibly no loss, or if there was a loss it would be less than the cost of maintaining the plants (which we now are faced with, I would think that they had the legal authority to do that, even though later actual events might prove that their previous judgment as to net losses had been wrong.

Mr. BORCHARDT. Let me ask this: Does Reynolds' proposal as to the first-year loss mean that any losses would be carried over into the second year and, therefore, diminish Reynolds' profits, and so on?

REYNOLDS WOULD CONSIDER LEASE WITH CARRY-OVER CLAUSE AFFECTING LOSSES

Mr. GOODLOE. I understand not. My remarks are not directed to the Reynolds' proposal, which I have not studied, but are directed to the general principle of this type of lease and outlined in Mr. Husbands' letter to Mr. Symington.

Mr. BORCHARDT. But, in view of what you said, I wondered whether the Reynolds' proposal involved such a carry-over of losses from the first and second year into subsequent years, so that any losses incurred during the first year of operation might be offset and borne by Reynolds out of future profits?

Mr. GOODLOE. I understand there is no such carry-over proposal, but I would rather Mr. Husbands, or someone more familiar with it, answer it.

Mr. CASKIE. That question hasn't come up, but I am sure Reynolds would be glad to sit down and talk it over.

(Mr. Goodloe subsequently sent to the committee the following letter dealing with the matter here under discussion:)

RECONSTRUCTION FINANCE CORPORATION,
Washington 25, D. C., October 26, 1945.

Re Hearing on Aluminum Reports of Surplus Property Administration and the Attorney General—Joint hearing of the Subcommittee on Surplus Property Disposal of the Committee on Military Affairs, the Special Committee to Study and Survey Problems of Small Business Enterprises, and the Industrial Reorganization Subcommittee of the Special Committee on Postwar Economic Policy and Planning.

Hon. JOSEPH C. O'MAHONEY,
United States Senate, Washington, D. C.

DEAR SENATOR O'MAHONEY: I note from the transcript of the hearing on October 17 that you desire a written statement as to the legal position of the RFC with respect to the proposal dated September 25, 1945, made by the Reynolds Metals Co. for the lease of certain of the Government-owned aluminum plants and facilities.

The proposal of Reynolds Metals Co., dated September 25, 1945, which was made a part of the record in the current hearing, was recently withdrawn, and I understand that Reynolds Metals Co. has submitted or will submit a new proposal. In view of this and my telephone conversation with you and Senator

McClellan, I understand that you are no longer interested in having a written statement from me as to the legal position of RFC with respect to the proposal of September 25. Your original request may have resulted from some misunderstanding of my testimony at the hearing on October 16, as is evidenced by references made thereto during the hearing on the following day.

In order that the matter might be made perfectly clear I am attaching for your ready reference an excerpt from the unrevised reporter's transcript of the hearing on the 16th, from which you will note that the statements I made at that time—and incidentally I still fully subscribe to those statements and views—had no reference to the Reynolds' proposal or any other specific proposal, but were directed to the general principle of the type of lease outlined in Mr. Husbands' letter to Mr. Symington of August 2, 1945. This I believe is made clear by the question asked immediately following my general statement by Mr. Borchardt and my reply thereto, i. e.:

"Mr. BORCHARDT. Let me ask this: Does Reynolds' proposal as to the first year loss mean that any losses would be carried over into the second year and therefore diminish Reynolds' profits, and so on?

"Mr. GOODLOE. I understand not. *My remarks are not directed to the Reynolds' proposal, which I have not studied, but are directed to the general principle of this type of lease and outlined in Mr. Husbands' letter to Mr. Symington.*" [Italics supplied.]

Further, while Mr. Husbands' letter to Mr. Symington did relate specifically to aluminum, my statement was a general statement regarding our position with reference to the so-called incentive rental or lease. It was not confined to aluminum, but is equally applicable to steel, magnesium, and other plants.

With best wishes.

Sincerely yours,

JOHN D. GOODLOE, *General Counsel.*

Senator O'MAHONEY. We are confronted with a very practical problem. The Government has constructed a certain number of plants for the purposes of the war at a great cost. In building the plants, the primary consideration for Defense Plant Corporation was to secure the aluminum which was necessary, without which the war could not have been fought and without which we wouldn't have had this problem.

Some of those plants were built at excessive costs—costs that would make it very difficult, if not impossible, to operate them on a commercial basis in peacetime. Is that not correct?

Mr. HUSBANDS. That is correct, sir.

Senator O'MAHONEY. Some of them were built in a more economical manner. Some have been operated at a profit, some have been operated at a loss, and so the task which is before the Surplus Property Board and in which you are collaborating, giving the best advice you can and the figures and facts behind you, is whether or not these plants should be locked up and abandoned or whether they should be leased or sold, perhaps on an incentive program or an incentive basis, to competitors of the Aluminum Co. of America, or whether they should be allowed to fall into the lap of the Aluminum Co. of America.

Perhaps I shouldn't have stated it that way. Perhaps I should have said whether they should be acquired by the Aluminum Co. of America.

Now, those are the alternatives, are they not?

Mr. HUSBANDS. That is correct. At the present time, Senator, we have had no offers for straight commercial lease or purchase of these plants, and unless something develops in the near future, your conclusions are correct.

Senator REVERCOMB. Mr. Husbands, has any other aluminum company other than the Aluminum Co. of America and the Reynolds Co. discussed the use of any of these plants with you?

Mr. HUSBANDS. Yes, sir; I might state that the American Smelting & Refining Co., which is a very good company in the brass and copper business, have had considerable discussion with us. They went down and inspected the plant at Jones Mills. They were always disturbed about the absence of "know how," particularly in making alumina, which I understand is a very complicated operation.

We discussed with Alcoa the question of passing on the "know how," and Alcoa said they would not do that.

The American Smelting & Refining Co. seemed to cool off. They were speaking of a straight commercial lease, and finally I called them on the telephone wanting to know whether they would take any positive action toward leasing, even under the Alcoa type contract, as we call it, and they stated this morning that they would not care to have anything to do with anything that smacked of a subsidy, and, further, that the plants were too large.

I might state that the Columbia Metals Co. last night gave us a written offer here, which I have not had time to analyze, but in substance they say that they will raise working capital of $20,000,000. Another statement here says a portion of the working capital may be obtained through Government loans. The term of lease shall be for 5 years.

Mr. BORCHARDT. What plants, Mr. Husbands?

Mr. HUSBANDS. I beg pardon. Let me call them out here.

The Hurricane Creek aluminum plant, Troutdale and Mead reduction plants, Trentwood rolling mill—that is a sheet rolling mill at Spokane which cost approximately $48,000,000, the Phoenix Extrusion Plant at Phoenix, Ariz., the Newark (Ohio) Rolled, Rod, and Bar Plant, and the Spokane Magnesium Plant, all owned by the RFC.

Senator MCCLELLAN. Is Jones Mills not included in the offer?

Mr. HUSBANDS. No; I believe he left that out.

Senator MCCLELLAN. I couldn't see why they wouldn't want it. I wondered if that was an oversight.

Mr. HUSBANDS. He says in the last paragraph, "The leasing of any plants pursuant to this offer shall not prejudice the right of Columbia Metals at any future time to lease additional Government-owned facilities, including but not limited to those located at Canonsburg, Pa.; New Castle, Pa.; Monroe, Mich.; Chicago, Ill.; Jones Mills, Ark.; Tacoma, Wash.; Riverbank and Los Angeles, Calif.; Massena Queens, N. Y.; Burlington, N. J., and Baton Rouge, La."

Senator REVERCOMB. This rather indicates to me, if I get the proper impression, that there are parties continuing to be interested in the acquisition of these plants by lease or purchase. Therefore, it would be rather wrong for us to precipitate you into immediate action here on one particular bid. You received the opening of negotiations as recently as yesterday?

Mr. HUSBANDS. I might state we have been negotiating with the Columbia Metals since last June.

Senator REVERCOMB. And they came forth with a written offer now?

Mr. HUSBANDS. They came forth with a written offer back there, which we did not accept because they wanted us to agree to supply the alumina, which was another joker in the situation.

Senator REVERCOMB. And now they come forth more recently with another offer?

Mr. HUSBANDS. That is right. This proposition is a straight rental situation, where they state the rental shall be computed on actual production of product as follows: Alumina, $2 per ton; pig aluminum, one-half cent per pound; plate and sheet aluminum, 1 cent per pound; rolled rod and bar, 1 cent a pound; extrusion, 1½ cents a pound; and pig magnesium, three-fourths cent a pound.

But in here we are required to buy the metal if he cannot find a market for it. It says the RFC will agree to purchase at a price to be mutually agreed upon, but in no event higher than the present market price, pig aluminum and magnesium to the extent of the difference between actual production and commercial sales.

Now, that proposition is similar to Reynolds.

Senator O'MAHONEY. Have any of these companies offered to subsidize the Government?

Mr. HUSBANDS. No, sir; not yet.

Senator O'MAHONEY. Mr. Harvey.

GOVERNMENT REQUIRED TO LIMIT LEASES TO 5 YEARS OR LESS

Mr. HARVEY. I notice that all these offers here that have been discussed related to the primary production of aluminum, but I am particularly interested in the processing equipment of aluminum.

I notice these various offers that have been made, and most of the leases, refer to 5 percent—there has been no formal suggestion as to sales price or method of computing sales price—or they refer to a so-called subsidized lease.

What I would like to know is whether or not the Surplus Property Administration, the DPC and RFC, would consider a lease for a term that would be as long as the average business cycle, so that a person could gage his business over a business cycle, say, 10 or 15 years, and whether or not they would be interested in a straight lease on the property with an option to purchase at an agreeable price at this time, subject to depreciation for future purchase, and also to pay for the lease on the basis of a fixed percentage of the gross sales of the product of the mill without regard as to whether or not you subsidize it under a profit or not, but merely a percentage; or, in other words, put the lease on a pay-as-you-go basis.

Mr. HUSBANDS. I might answer that by saying that under the Surplus Property Act as it stands today, we cannot dispose of a plant except to lease for 5 years or less.

Until 30 days after this report has been presented to Congress, with no adverse action taken, we are stopped from selling, giving options or leasing for longer than 5 years on aluminum plants.

Mr. BORCHARDT. After that period of 30 days, it is merely a question of policy within the RFC whether to sell or lease, lease with option for any length of time.

Mr. HUSBANDS. That is right.

After that time is up and the restriction is off, of course, these plants are in the same category as those where there are no restrictions, and we will be glad to renegotiate with anyone on a business basis.

Mr. CASKIE. I understood you to say you had sent out about 225 inquiries.

Mr. HUSBANDS. Yes, sir.

Mr. CASKIE. So you haven't failed to inquire around from people who might be interested in these plants?

Mr. HUSBANDS. No, sir.

Mr. CASKIE. Of all the replies, did you get a propostion from any interests you addressed that was, in your opinion, more favorable to the Government than the one presented to you by the Reynolds Metals Co., which I now understand you to say you have rejected?

Mr. HUSBANDS. I would say that the one of the Columbia Metals was more favorable, in that they do not ask for a guarantee against loss.

Mr. CASKIE. Have they the know-how?

Mr. HUSBANDS. I don't know that.

Mr. CASKIE. You started discussing it with them last June?

Mr. HUSBANDS. That is right.

Mr. CASKIE. And you haven't found out yet whether they have the know-how?

Mr. HUSBANDS. Of course, we didn't get down to that point.

Senator WHERRY. On this Reynolds offer, you figured out the overhead. What is that on the basis of sales?

Mr. HUSBANDS. Sales of 512,000,000 pounds, Senator.

Senator WHERRY. Who is going to buy that?

Mr. HUSBANDS. The Government is going to buy it, provided he cannot sell it to private sources.

Senator WHERRY. That is, you stock-pile it?

Mr. HUSBANDS. That is what he suggests; yes.

Senator WHERRY. Where would you get that money?

Mr. HUSBANDS. That is a question to be answered.

Senator WHERRY. I think that is a very important matter. Have you the authority to pay the money to buy that metal to maintain that price?

Mr. HUSBANDS. No, sir.

Senator WHERRY. You would have to come to Congress for that?

Mr. TROY. I think there was some point made before about having a stock-pile arrangement discussed in the Military Affairs Committee. Has it been formalized as yet?

Senator WHERRY. I am not on the Military Affairs Committee, and I am not acquainted with it. Perhaps Senator Revercomb or Senator McClellan would know. This question has just presented itself now. I don't see where you could figure that overhead unless you had a fixed price for that production.

If you have to stock-pile it on a certain price, let me ask you this question:

If you are going to stock-pile, should you not do the same thing for other companies which you do for Reynolds?

Mr. HUSBANDS. Of course, we could not stock-pile, Senator, unless the Congress so authorized.

Senator WHERRY. But if you did, if you were authorized, wouldn't you be under obligation to continue to stock-pile metal for other persons?

Mr. HUSBANDS. That is all according to how the law will read.

Senator WHERRY. As a business proposition, wouldn't you be under obligation to other lesseees to do the same for them in other plants as you are doing with Reynolds?

Mr. HUSBANDS. I would think so; yes.

Senator WHERRY. I would like to ask your general counsel—I understood him to say he thought he had legal authority in the event it looked like there might be a profit.

Mr. GOODLOE. I said it was my judgment that if the directors of the RFC, with the approval of the Surplus Property Administrator, first determined that this was the best and most feasible way of achieving the objectives of the Surplus Property Act, and second, if they found that over the average in the 5-year period there would likely be a profit and that the possibility of loss would be remote, and if there was a loss it would not exceed the cost of maintaining the plants, I thought they had the authority to do it, even though subsequent events might prove their findings in that respect to have been wrong.

Senator WHERRY. If an examination of the records would disclose that the Reynolds Co. could not produce this aluminum at 15 cents and make any money—and I remember Mr. Reynolds testifying before the Senate Small Business Committee prior to this time—in the light of that, on your second proposition, would you still feel you had the authority to go ahead, knowing you are going to have a loss?

Mr. GOODLOE. I don't know what the factual situation is, Senator. My judgment from the standpoint of legal authority is that if the directors made that determination under circumstances where it wasn't patently wrong—in other words, that no reasonable man could have come to such conclusions under those circumstances—I would say they had the legal authority to do it.

Senator WHERRY. Regardless of whether they knew they were going to have a loss when they started into it? Would not that make a difference?

Mr. GOODLOE. That would make a difference.

(A letter on this point by Mr. Goodloe, appears on p. 93.)

Mr. HUSBANDS. I think that is all I have, unless you want to ask some more questions.

Mr. ANDERSON. I wanted to ask one question. You mentioned earlier in the day, or yesterday, some seven or eight offers that had come to you, or something preliminary to offers.

Mr. HUSBANDS. I said "interests."

Mr. ANDERSON. Would you list those and indicate the character of the interest shown?

Mr. HUSBANDS. Yes, sir. I have a list here which I will put in the record. This is a list of the companies to which we sent the telegram.

Senator WHERRY. Did you send that to Alcoa?

Mr. HUSBANDS. I talked to Alcoa every week or two and to Reynolds, too. There was no use sending it to them. I knew their interests.

Senator WHERRY. I wondered if you offered them a formal opportunity.

Mr. HUSBANDS. No; they couldn't have bought them under the ruling.

Senator WHERRY. I wondered whether you solicited them—whether you extended an invitation to them to come in and talk it over.

Mr. HUSBANDS. They were in to see me once a week, anyway.

Senator WHERRY. But you are going on the theory that they cannot buy? That is your interpretation. I am asking you if you extended

the opportunity to come in and negotiate with you on any of these plants to Alcoa or Reynolds.

Mr. HUSBANDS. I think we had a letter from the Attorney General which told us not to sell to Alcoa.

Senator WHERRY. Did he tell you not to sell to Reynolds?

Mr. HUSBANDS. No, sir.

Senator WHERRY. And did you extend them the opportunity to come in and make their offer?

Mr. HUSBANDS. Yes; I have their offer.

Senator STEWART. You say you sent out 225 letters?

Mr. HUSBANDS. Telegrams, Senator.

Senator STEWART. Seeking offers on these plants?

Mr. HUSBANDS. That is right.

Senator STEWART. Are there that many aluminum companies?

Mr. HUSBANDS. These are steel operators, brass, copper, and anybody in the metallurgical line.

SUBLEASING OF UNITS IS SUGGESTED

Senator STEWART. Has any plan been considered for leasing these plants to large concerns and they, in turn, subleasing operations to smaller concerns?

Mr. HUSBANDS. No, sir.

Senator STEWART. It would probably be difficult anyway, wouldn't it?

Mr. HUSBANDS. Yes; I think so.

Senator STEWART. Some of them are rather small. I understand that some concerns are capable of producing in the field of final manufacture whereas they are not qualified to do anything else, and others might be able to do fabrication work, and then secondary smelting, and what not. Have you given any thought to breaking down the operations of plants in that respect?

Mr. HUSBANDS. I was referring to the aluminum metal plants, Senator. I don't think those plants would be given to that kind of operation. You have got, for instance, one, two, three, or four pot lines in each plant.

Senator STEWART. What I mean, if I make myself clear, is to lease these plants to a metals concern with the understanding that they sublease work of this character to smaller concerns.

Mr. HUSBANDS. I might say this: We are now working on a proposition in Canonsburg, Pa., which is an aluminum forging plant on that same basis, where it is to be broken up into smaller units. But it will not be aluminum forging.

Senator STEWART. Our interests being with the small businessmen, those of us on the Small Business Committee and all of us in this operation, we are interested in aiding the reconversion in the postwar period. I think that is an idea, if it is feasible at all, which might be given some thought. I am glad to hear you are working on that. You might fan out and develop into something in many of the other plants.

Mr. HUSBANDS. We inaugurated that the other day in Birmingham, Ala., and secured lessees for a big airplane plant down there.

Senator WHERRY. If you didn't pay an incentive to these plants that you want to get into this business, you would have to increase the price of aluminum, wouldn't you?

Mr. HUSBANDS. I will answer that by saying that at the present time no one has offered to lease the plant, and I assume your conclusion is right—that they want to be assured of a market for the metal and a price at which they will not mean a loss.

Senator WHERRY. So the choice we have to make here is to either permit private enterprise to function at a price where they can make a profit, which might mean raising the price, or else, in other words, not to get into competition.

You would pay incentives to those you wanted to get in business.

Mr. HUSBAND. Up to the present time that is the best we have had right here before us.

Senator WHERRY. You have got to go one way or the other; is that right.

Mr. HUSBANDS. I don't know about the price raising end of it, but we haven't any offers at the present prices. I don't know whether we can develop offers that have other features or not.

Mr. ANDERSON. I take it these plants, those not now in operation, are in stand-by condition with a small skeleton force taking care of them as custodians?

Mr. HUSBANDS. That is true.

Mr. ANDERSON. As of November 1, if something is not done between now and then, the plants operated by Alcoa will go into the same condition?

Mr. HUSBANDS. That is correct.

Mr. ANDERSON. How many people will be eliminated from employment or will lose their jobs as a result of the cut-back on November 1?

Mr. HUSBANDS. You mean in comparison to those?

Mr. ANDERSON. Those now employed who will lose their jobs.

Mr. HUSBANDS. They are not employed even now, because Alcoa closed their plants down 35 or 40 days ago.

Mr. ANDERSON. They have already lost their jobs.

Mr. HUSBANDS. That is right.

Mr. ANDERSON. Do you know the cost to the Government of maintaining these plants in stand-by condition?

Mr. HUSBANDS. No, sir; I haven't that figure.

Mr. ANDERSON. Is it a sizable amount of money?

Mr. HUSBANDS. I would think so, yes, sir.

Mr. ANDERSON. Running into millions of dollars a year?

Mr. HUSBANDS. You mean all of the plants?

Mr. ANDERSON. Yes.

Mr. HUSBANDS. Yes; I would say so.

Senator REVERCOMB. Mr. Husbands, just for clarification, what are the letters and papers which you are going to put in the record at the request of Mr. Anderson? Will you just identify them?

Mr. HUSBANDS. This is a copy of the telegram which Mr. Symington and I signed jointly and sent to 224 companies, inviting them to negotiate with us for the use of these aluminum facilities.

This is a letter which I wrote in February of this year to 57 companies, all of whom were in the aluminum fabricating business for some time.

Senator O'MAHONEY. Will you put them all in the record?

Mr. HUSBANDS. Yes, sir.

I also have here the names of the companies to whom we sent the letters and wires, and a summary of the replies of those who expressed any interest in them.

(The letter, telegram, and lists referred to read as follows:)

DEFENSE PLANT CORPORATION,
Washington 25, D. C. February 21, 1945.

Mr. F. C. CRAWFORD,
President, Thompson Products, Inc., Cleveland, Ohio.

DEAR MR. CRAWFORD: During the war period Defense Plant Corporation has built a great many magnesium and aluminum plants throughout the country. These plants include the whole range of facilities from the production of primary metal through the entire field of fabrication. Sooner or later these plants will not be needed for the war program and will then become available for disposition to private industry.

Because you are now engaged in the manufacture of aluminum, magnesium, or related nonferrous metal products, it is felt that you may have a future interest in some of these facilities. If such is the case, and in anticipation of the time they may become available, Defense Plant Corporation invites your analysis and study of these facilities for your postwar needs. Such preliminary consideration on your part may serve to expedite acquisition for early production when they become available for disposal. We are prepared to discuss now any interest you may have in the future acquisition of facilities and the problems of terms and conditions related thereto.

We shall be happy to furnish you detailed information as to any of these plants, including equipment, capacities, etc., which may be useful to you in your consideration of them.

Yours very truly,

SAM H. HUSBANDS, *President.*

DEFENSE PLANT CORPORATION,
Washington, D. C., June 8, 1945.

Memorandum to Mr. Husbands.

During the month of February we forwarded letters to 57 selected manufacturing concerns inviting their analysis and study of the suitability of DPC aluminum and magnesium plants for their postwar needs. We received 18 replies indicating interest of one degree or another. In addition we received four replies indicating interest in equipment only, and two replies indicating interest in plants other than the aluminum and magnesium facilities.

Most of the replies indicating interest in the plants were referred to Mr. Bean, and most of these in turn were referred to the agencies for further attention. I have recently followed up on these and herewith summarize the situation as to each prospect on the basis of present information. I have asked the agencies to keep us advised of developments, and in many instances, where the situation seemed to justify it, have asked prospects to confer with you in Washington.

Advance Aluminum Castings Corp., Chicago, Ill.—Have no present need for additional space but are interested in information on available facilities for future reference. Bukowski has furnished "briefalog" and suggested Plancor 652 (Aluminum Co. of America, McCook, Ill.) and Plancor 1370 (Aluminum Co. of America, East St. Louis, Ill.), and I have invited them to confer with you.

American Smelting & Refining Co., New York, N. Y.—Very much interested in making a study of aluminum and magnesium plants. You are familiar with negotiations with them.

Bendix Aviation Corp., Detroit, Mich.—Interested in purchasing or leasing Plancor 132, which is under lease to magnesium foundry division of Bendix, and possibly others. Mr. Bean is having appraisals made.

Bridgeport Brass Co., Bridgeport, Conn.—Interested in considering small plant, but not sure of extent of postwar expansion program. New York agency has asked for more definite outline of requirements, and I have invited them to confer with you.

Calumet and Hecla Consolidated Copper Co., Wolverine Tube Division, Detroit, Mich.—Very much interested in further information. Have asked Fushman to bring us up to date on negotiations.

Doehler-Jarvis Corp., New York, N. Y.—Interested in plant suitable for centralizing production of magnesium parts now being carried on at Chicago and Batavia, N. Y., plants. Mr. Bean has furnished a list of aluminum and magnesium foundries, and I have invited them to confer with you.

Ebaloy Foundries, Inc., Rockford, Ill.—Interested in receiving general information on aluminum and magnesium plants. Bukowski has furnished them a copy of the "briefalog" and called attention to those plants which have been declared surplus as well as Plancor 652 (Aluminum Co. of America, McCook, Ill.), and Plancor 1370 (Aluminum Co. of America, East St. Louis, Ill.). I have invited them to confer with you.

Federal Mogul Corp., Detroit, Mich.—Interested in information on aluminum foundry facilities. Have asked Fushman to bring us up to date on negotiations.

General Electric Realty Corp., Schenectady, N. Y.—Interested in acquiring plants now leased from DPC, and are in touch with Mr. Farthing and Mr. Bean. I have invited them to confer with you when their plans develop.

General Motors Corp., Detroit, Mich.—Interested in acquisition of Plancor 1208 (General Motors Corp., Delco Remy division, Bedford, Ind.). May not be interested in all of machinery and equipment. Negotiating with Bukowski.

Harvill Corp., Los Angeles, Calif.—Interested in facilities located in sections of the country other than southern California. Have sent them copy of "briefalog" and instructed Haight to follow up. Also have invited them to confer with you.

National Bronze & Aluminum Foundry Co., Cleveland, Ohio.—Interested in retaining facilities now being operated by them. Have invited them to discuss matter with you when their plans are developed.

National Lead Co., New York, N. Y.—Interested in information on aluminum and magnesium plants in general and the magnesium plant at Luckey, Ohio, which they are operating, in particular. Have asked Farthing for report on status of negotiations.

Outboard Marine & Manufacturing Co., Waukegan, Ill.—Originally expressed interest in any plant which might be near Milwaukee or Waukegan but later advised Bukowski we have nothing suitable.

Revere Copper & Brass, Inc., New York, N. Y.—Definitely interested in acquiring some of aluminum and magnesium facilities they are now operating and have been in touch with New York office. Have asked Farthing for report on status of negotiations.

The Sperry Corp., New York, N. Y.—Interested in information on plants in eastern and southeastern States, and have had some discussions with Mr. Bean. Have invited them to discuss matter with you when their plans are developed.

Stewart-Warner Corp., Chicago, Ill.—Originally expressed interest in plant for production of permanent mold castings, but later advised Chicago office we have nothing suitable.

West Bend Aluminum Co., West Bend, Wis.—Interested in aluminum or magnesium plant. Chicago office has furnished copy of "briefalog" and directed particular attention to Plancor 652 (Aluminum Co. of America, McCook, Ill.), and Plancor 1792 (Metal-Mold Magnesium Corp., Cedarburg, Wis.). Chicago office has had no response and I have invited them to discuss matter with you.

Prospects for the acquisition of equipment only are as follows:

Chrysler Corp., Detroit, Mich.—Interested in purchasing approximately $1,000,000 original cost plus installation of hammers and presses located in Chrysler-owned buildings (Plancors 103 and 1009). Negotiations being handled by Detroit agency.

Metal & Thermit Corp., New York, N. Y.—Interested in melting, casting, and granulating equipment. Referred to New York office.

Monarch Aluminum Manufacturing Co., Cleveland Ohio.—May be interested at later date in acquiring equipment separate from plant. Referred to Cleveland office.

Mueller Brass Co., Port Huron, Mich.—Possible interest in equipment separate from plant. Referred to Detroit office.

Prospects for plants other than aluminum or magnesium are as follows:

American Radiator & Standard Sanitary Corp., New York, N. Y.—Interested in a plant in Texas and another in southern Indiana, southern Illinois, or Kentucky. Referred to Mr. Bean.

Rome Cable Corp., Rome, N. Y.—Interested in acquiring plant and equipment in nonferrous metal field. Referred to Mr. Bean.

R. C. Dyas.

August 30, 1945.

To Companies on Attached Lists:

With the premise that the present leasing situation on Government-owned aluminum and alumina plants can be satisfactorily resolved, and in adequate supply of bauxite at a competitive price assured, please advise the Reconstruction Finance Corporation immediately whether your company would be interested in the purchase or lease of any Government-owned aluminum or alumina plants, and if so, on what basis.

W. Stuart Symington,
Chairman, Surplus Property Board.
Sam H. Husbands,
Director, Reconstruction Finance Corporation.

COMPANIES EXPRESSING INTEREST IN ALUMINUM PLANTS

The Bristol Brass Corp. (*telegram August 31—R. E. Gay, president*).—Requests information as to whether plants offered for sale or lease are manufacturers of ingot only. This will affect decision. (Referred to Buskie.)

Pend Oreille Mines & Metals Corp. (*telegram August 31—Lewis P. Larson, president*).—If Olin Tacoma plant is on list and can be converted to electrolytic zinc, would be very much interested.

Bohn Aluminum & Brass Corp. (*telegram August 31—P. A. Markey, president*)—Very much interested. Would like list of plants available and terms and conditions for lease or purchase.

Johnson Bronze Co. (*telegram August 31—J. Preston Flaherty, president*).—Interested, but feel plant is too large and expense would be too great.

Eagle Picher Co. (*telegram August 31—J. M. Bowlby, president*).—Not interested at the moment, but have been interested in the past and will be glad to consider specific situations if and when available.

The Youngstown Sheet & Tube Co. (*letter August 31—W. E. Watson, president*).—If plants are sold piecemeal would be interested in rolling equipment.

Fort Pitt Bridge Works (*letter August 31—James M. Strub, president*).—May be interested in lease of portion of aluminum forging plant located at Canonsburg, Pa.

The Vulcan Refining Co. (*telegram August 31—W. J. Butterfield, president*).—Might be interested in purchase or lease of alumina plant using the Baeyer Process—requests location and particulars.

American Smelting & Refining Co. (*telegram September 4—Roger W. Straus, president*).—Now negotiating for lease of Hurricane alumina plant and Jones Mill aluminum plant.

Callahan Zinc Lead Co. (*telegram September 4—Henry B. Van Sinderen, president*).—Very much interested. Would like additional information.

Permanente Metals Corp. (*teletype September 5—Henry J. Kaiser, president*).—Very much interested in alumina plants.

Sunshine Mining Co.—Possibly interested long term lease purchase agreement on aluminum production plant Spokane or Tacoma.

United Zinc Smelting Corp. (*letter August 31*).—Very much interested. Would like further information.

Pittsburgh Metallurgical Co. (*cc letter September 5 Symington—Charles F. Colbert, Jr., president*).—May be interested in Ancor. Would like to receive descriptive material.

Republic Steel Corp. (*letter September 6—C. M. White, president*).—If plants are to be dismantled, would be interested in looking over rolling mill machinery.

STEEL AND IRON COMPANIES

Acme Steel Co., 2840 Archer Avenue, Chicago, Ill., C. S. Traer, president.
Alan Wood Steel Co., Conshohocken, Pa., J. T. Whiting, president.
Allegheny Ludlum Steel Corp., Brackenridge, Pa., H. G. Batcheller, president.
American Chain & Cable Co., Inc., 929 Connecticut Avenue, Bridgeport, Conn., W. T. Morris, president.
The American Rolling Mill Co., 703 Curtis Street, Middletown, Ohio, C. R. Hook, president.
American Stamping Co., 978 East Sixty-fourth Street, Cleveland, Ohio, C. W. Custer, president.
Apollo Steel Co., Apollo, Pa., A. M. Oppenheimer, president.
Arcade Malleable Iron Co., 72 Albany Street, Worcester, Mass., J. A. Crotty, president.
Atlantic Steel Co., Sixteenth and Mecaslin Streets, Atlanta, Ga., C. F. Stone, president.
Barium Steel Corp., Fifteenth Street and Allen Avenue SE., Canton, Ohio, Rudolph Eberstadt, president.
Bethlehem Steel Corp., 25 Broadway, New York, N. Y., E. G. Grace, president.
Birdsboro Steel Foundry & Machine Co., Birdsboro, Pa., J. E. McCauley, president.
Bliss & Laughlin, Inc., Harvey, Ill., W. R. Howell, president.
Borg-Warner Corp., 310 South Michigan Avenue, Chicago, Ill., C. S. Davis, president.
Brooke (E. & G.) Iron Co., Birdsboro, Pa., F. W. Coburn, president.
Brown Fence & Wire Co., 6560 Juniatta Avenue, Cleveland, Ohio, A. C. Winger, president.
A. M. Byers Co., Clark Building, Pittsburgh, Pa., L. F. Rains, president.
Carpenter Steel Co., 101 West Bern Street, Reading, Pa., J. H. Parker, president.
Castle (A. M.) & Co., 1132–52 West Blackhawk Street, Chicago, Ill., John M. Simpson, president.
Central Foundry Co. (The), 386 Fourth Avenue, New York, N. Y., David Ford, president.
Central Iron & Steel Co., Harrisburg, Pa., H. S. Evans, president.
Central Steel & Wire Co., 3000 West Fifty-first Street, Chicago, Ill., Mandel Lowenstine, president.
Chicago Rivet & Machine Co., 9600 West Jackson Boulevard, Bellwood, Ill., J. A. Morrissey, president.
Clow (James B.) & Sons, 201–299 North Talman Avenue, Chicago, Ill., K. S. Clow, president.
Colorado Fuel & Iron Corp., Continental Oil Building, Denver, Colo., W. A. Maxwell, Jr., president.
Commercial Shearing & Stamping Co., 1775 Logan Avenue, Youngstown, Ohio, C. B. Cushwa, Sr., president.
Consolidated Steel Corp., P. O. Box 6880, East Los Angeles Branch, Los Angeles, Calif., A. G. Roach, president.
Continental Foundry & Machine Co., One Hundred and Forty-fourth Street, East Chicago, Ind., W. C. Snyder, Jr., president.
Continental Steel Corp., 1109 South Main Street, Kokomo, Ind., D. A. Williams, president.
Copperweld Steel Co., Glassport, Pa., S. E. Bramer, president.
Crucible Steel Co. of America, 405 Lexington Avenue, New York, N. Y., W. H. Colvin, Jr., president.
Detroit Gray Iron Foundry Co., Iron Street, Detroit, Mich., M. L. Gardner, president.
Detroit Steel Corp., 1025 South Oakwood Avenue, Detroit, Mich., M. J. Zivian, president.
Driver-Harris Co., Middlesex Street, Harrison, N. J., F. L. Driver, Jr., president.
Eastern Malleable Iron Co., Naugatuck, Conn., L. A. Dibble, president.
Eastern Stainless Steel Corp., Rolling Mill Avenue and Baltimore Street, Colgate, Baltimore County, Mr., T. F. McLaughlin, president.
Empire Steel Corp., North Bowman Street, Mansfield, Ohio, J. B. Montgomery, Jr., president.
Firth-Sterling Steel Co., McKeesport, Pa., L. Geral Firth, president.
Follansbee Steel Corp., Third and Liberty Avenue, Pittsburgh, Pa., Lauson Stone, president.

Fort Pitt Bridge Works, Keystone Hotel Building, Pittsburgh, Pa., George D. Wick, president.
General Metals Corp. (controlled by Transamerica Corp.), 701 One Hundred and Fifth Avenue, Oakland, Calif., W. A. De Ridder, president.
General Steel Castings Corp., Eddystone, Pa., Charles P. Whitehead, president.
Globe Steel Tubes Co., 3839 West Burnham Street, Milwaukee, Wis., W. G. Buchanan, president.
Granite City Steel Co., Granite City, Ill., Hayward Niedringhaus, president.
Harrisburg Steel Corp., Harrisburg, Pa., Wilbert Near, president.
Hoover Ball & Bearing Co., Ann Arbor, Mich., F. A. Stivers, president.
Indiana Steel Products Co., 6 North Michigan Avenue, Chicago, Ill., A. D. Plamondon, Jr., president.
Inland Steel Co., 38 South Dearborn Street, Chicago, Ill., W. Sykes, president.
Jessop Steel Co., 500 Green Street, Washington, Pa., R. E. Emery, president.
Jones & Laughlin Steel Corp., Jones & Laughlin Building, Pittsburgh, Pa., H. E. Lewis, president.
Joslyn Manufacturing & Supply Co., 20 North Wacker Drive, Chicago, Ill., M. L. Joslyn, president.
Kansas City Structural Steel Co., Twenty-first Street and Metropolitan Avenue, Kansas City, Kans., H. A. Fitch, president.
Kellogg (M. W.) Co., 225 Broadway, New York, N. Y., M. W. Kellogg, president.
Keystone Steel & Wire Co., Peoria, Ill., Reuben E. Sommer, president.
Laclede Steel Co., Arcade Building, St. Louis, Mo., W. M. Akin, vice president (presidency vacant).
Lancaster Iron Works, Inc., South Prince and Hager Streets, Lancaster, Pa., W. W. Porsey, president.
Latrobe Electric Steel Co., Latrobe, Pa., M. W. Saxman, president.
Lukens Steel Co., South First Avenue, Coatesville, Pa., R. W. Wolcott, president.
Mackintosh-Hemphill Co., 901 Bingham Street, Pittsburgh, Pa., James S. Ervin, president.
Macwhyte Co., 2906 Fourteenth Avenue, Kenosha, Wis., J. S. Whyte, president.
Mahone (R. C.) Co. (The), 8650 Mount Elliott Avenue, Detroit, Mich., R. C. Mahon, president.
McLouth Steel Corp., 300 South Livernois Avenue, Detroit, Mich., D. B. McLouth, president.
Michigan Seamless Tube Co., South Lyon, Mich., William A. McHattie, president.
Michigan Steel Casting Co., 1986 Guoin Street, Detroit, Mich., E. D. Flintermann, president.
Michigan Steel Tube Products Co., 9450 Buffalo Street, Hamtramck, Mich., Charles E. Miller, president.
The Midland Steel Products Co., Madison Avenue and West One Hundred and Sixth Street, Cleveland, Ohio, E. J. Kulas, president.
The Midvale Co., 4320 Wissahickon Avenue, Nicetown, Philadelphia, Pa., Francis Bradley, president.
Midwest Piping & Supply Co., Inc., 1450 South Second Street, St. Louis, Mo., A. G. Stoughton, president.
National Steel Corp., Grant Building, Pittsburgh, Pa., George R. Fink, president.
Northwestern Steel & Wire Co., Sterling, Ill., P. W. Dillon, president.
Ohio Seamless Tube Co., 132 West Main Street, Shelby, Ohio., W. C. Connelly, president.
Phoenix Iron Co., Phoenixville, Pa., David Thomson, president.
Pittsburgh Forgings Co., Coreopolis, Pa., Edwin Hodge, Jr., president.
Pittsburgh Mettallurgical Co., Inc., 3801 Highland Avenue, Niagara Falls, N. Y., C. F. Colbert, Jr., president.
Pittsburgh Steel Co., 1600 Grant Building, Pittsburgh 30, Pa., J. H. Carter, president.
Pittsburgh Steel Foundry Corp., Glassport, Pa., G. D. Thompson, president.
Republic Steel Corp., Republic Building, Cleveland, Ohio, C. M. White, president.
Rotary Electric Steel Co., 21400 Mound Road, Warren Township, Mich., N. D. Devlin, president.
Rustless Iron & Steel Corp., 3400 East Chase Street, Baltimore, Md., Calvin Verity, president.
St. Louis Screw & Bolt Co., 6900 North Broadway, St. Louis, Mo., Roy W. Miller, president.
Scullin Steel Co., 6700 Manchester Avenue, St. Louis, Mo., E. F. Judge, president.
Sharon Steel Corp., Sharon, Pa., Henry A. Roemer, president.

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Signode Steel Strapping Co., 2600–2620 North Western Avenue, Chicago, Ill., J. W. Leslie, president.
Simonds Saw & Steel Co., 470 Main Street, Fitchburg, Mass., Daniel Simonds, president.
Sivyer Steel Casting Co., 1675 South Forty-third Street, Milwaukee, Wis., M. A. Fladoes, president.
Sloss-Sheffield Steel & Iron Co., Birmingham, Ala., Hugh Morrow, president.
Smith (A. O.) Corp., 3533 North Twenty-seventh Street, Milwaukee, Wis., W. C. Heath, president.
Standard Tube Co. (The), 14600 Woodward Avenue, Highland Park, Mich., T. F. Thornton, president.
Struthers Wells Corp., 1003 Pennsylvania Avenue, Warren, Pa., J. T. Dillon, Jr., president.
Superior Steel Corp., Grant Building, Pittsburgh, Pa., C. I. Collins, president.
Taylor-Wharton Iron & Steel Co., High Bridge, N. J., G. R. Hanks, president.
Tennessee Coal, Iron & Railroad Co., Brown-Marx Building, Birmingham, Ala., Robert Gregg, president.
Terre Haute Malleable & Manufacturing Corp., 2030 North Nineteenth Street, Terre Haute, Ind., H. L. Arnold, president.
The Timken Roller Bearing Co., Canton, Ohio, W. E. Umstattd, president.
Transue & Williams Steel Forging Corp., Alliance Ohio, J. R. Gorman, president.
Union Wire Rope Corp., Twenty-first and Manchester Avenue, Kansas City, Mo., M. G. Ensinger, president.
United Engineering & Foundry Co., First National Bank Building, Pittsburgh, Pa., K. C. Gardner, president.
United States Pipe & Foundry Co., Burlington, N. J., N. F. S. Russell, president.
United States Steel Corp., 71 Broadway, New York, N. Y., B. F. Fairless, president.
Universal-Cyclops Steel Corp., Bridgeville, Pa., W. H. Baker, president.
Valley Mould & Iron Corp., Hubbard, Ohio, W. H. Ramage, president.
Van Dorn Iron Works Co., 2685 Seventy-ninth Street, Cleveland, Ohio, N. T. Jones, president.
Vanadium-Alloys Steel Co., Latrobe, Pa., Floyd Rose, president.
Vulcan Detinning Co., Sewaren, N. J., W. J. Buttfield, president.
Warren Foundry & Pipe Corp., Phillipsburg, N. J., L. R. Dohm, president.
West Michigan Steel Foundry Co., Muskegon, Mich., O. A. Seyforth, president.
Western Pipe & Steel Co. of California, 200 Bush Street, San Francisco, Calif., L. N. Slater, president.
Wheeling Steel Corp., Wheeling Steel Corp. Building, Wheeling, W. Va., A. J. McFarland, president.
Witherbee Sherman Corp., Port Henry, N. Y., Gerard Bradford, president.
Woodward Iron Co., Woodward, Ala., H. A. Berg, president.
The Youngstown Sheet & Tube Co., Stambaugh Building, Youngstown, Ohio. Frank Purnell, president.

PAYMENT OF TAXES ON LEASED FEDERAL PROPERTY DISCUSSED

Senator REVERCOMB. Did I understand you to say some 18 companies expressed an interest?

Mr. HUSBANDS. Yes, sir.

Mr. BORCHARDT. Mayor LaGuardia, testifying before the Mead committee the other day, raised a question which I thought might be discussed here.

In the case of leasing a Federal property to private operators, how about the payment of local taxes on real property and personal property? Would you care to comment on that proposition?

Mr. HUSBANDS. So long as the property is owned by the RFC the real property is taxable and the personal property is not taxable.

Our leases generally run so that the operator shall pay the taxes in addition to the rental which he pays for the plant.

Mr. BORCHARDT. How about plants which are not owned by RFC but are owned by the Army or Navy and are declared surplus to you?

Mr. HUSBANDS. We only had one case of that, and I recall that that

was leased to General Motors and the lease there was that they would pay a half million dollars a year, plus an amount that would equal the taxes.

Now, I don't know what arrangement was made.

Mr. BORCHARDT. Paid to whom?

Mr. HUSBANDS. Paid to the Army.

Mr. BORCHARDT. The proposition which Mayor LaGuardia was interested in was this: From what source are the communities going to collect their revenue?

Mr. HUSBANDS. That question is worrying us now.

As far as we are concerned in the RFC, we are not worried about it, but when we get an Army plant declared surplus to us we have the question of what shall be done about local taxes.

As I understand it, the Federal Government cannot pay local taxes under those situations. Therefore, should not the Federal Government collect from a lessee an amount which would equal Federal taxes to put him on a parity with a man who leases from the RFC?

Mr. BORCHARDT. The suggestion was made in the course of the Mead committee hearings, to insert in the leases provisions compelling the lessee to pay an amount equal to taxes which would otherwise be paid for the purpose of passing that amount on to the community or State. Do you think that kind of provision would be effective?

Mr. HUSBANDS. I don't know whether that would be legal. That is a problem before the RFC today.

Senator WHERRY. In our State we have a similar lessee and it is optional whether they pay or don't. Legally they are not bound. Is that about your opinion?

Mr. HUSBANDS. I have the impression, Senator, that we could not legally pay that money on an Army-owned plant. It may be that what Mr. Borchardt says is practical, that we could require a lessee to pay an amount to the community. I do not know.

Senator STEWART. I am interested in pursuing the matter you mentioned about the plant in Birmingham. Is that the multiple tenancy idea we have discussed?

Mr. HUSBANDS. Yes, sir.

Senator STEWART. How many different tenants would be in that plant?

Mr. HUSBANDS. As I recall there are about 20 or 25 in there. It is a large airplane modification center.

Senator STEWART. They will go through the complete process of manufacturing everything from the handling of the ore on to the finished product?

Mr. HUSBANDS. That is not an aluminum plant. That is an airplane modification plant.

Senator STEWART. Where is it you are trying that on an aluminum plant?

Mr. HUSBANDS. At Cannonsburg, Pa., but the lessee is not going to make aluminum products, but merely manufacture in an aluminum forging plant. We have had no interest expressed by aluminum operators.

Senator STEWART. The Government would purchase it for stock piling unless it could be sold on the general market?

Mr. HUSBANDS. You mean in connection with the Reynolds offer and this offer I have here?

Senator STEWART. No; at the plant in Pennsylvania.

Mr. HUSBANDS. No. You understand the lessees there do not propose to make aluminum products. We are merely dividing the plant up into small compartments and leasing them to a number of small manufacturers who manufacture various things.

Senator STEWART. Other things?

Mr. HUSBANDS. Yes; other things.

Senator O'MAHONEY. Mr. Harvey, did you want to ask a question?

Mr. HARVEY. I want to bring up the question of taxes.

In the city of Los Angeles there is an extrusion plant which the city has assessed, as a part of the basis of taxation, the cost of the foundation and installation costs of the machinery as part of the legal property cost, and the cost to the lessee who is obligated to pay under the lease, is an exorbitant tax, $136,000. That is one of the reasons that the original lessee gave for not exercising his option for the purchase of the property.

It raises the question as to the method of assessment, whether or not to use the net building cost, whether or not you would create a liability on the part of a new owner or lessee, and whether or not the taxing body would base its assessment on the original cost to the Government, or the new appraised cost.

For example, the plant I am interested in, if it were assessed at the cost to the Government, would be impossible for me to operate.

Senator REVERCOMB. That would largely be a matter of State policy as a State tax?

Mr. HARVEY. Yes; but the Federal Government, by writing it into their lease, creates a third-party liability to the taxing authorities within the local area.

Senator REVERCOMB. I don't believe the Federal Government by putting anything in a lease can change the State tax law, or the basis of State taxes.

Mr. HARVEY. I merely point out that that is an important consideration in the operation of these plants.

Mr. TROY. The thought occurred to me that the RFC had no right to write a lease whereby the Government sustained a loss.

Under what right do they do that?

Senator O'MAHONEY. That was a war right under the power granted to the RFC. We are now talking about peacetime and the question that is presented to us now might be boiled down to this simple question: What is it worth to the Government of the United States to reestablish a competitive economy in aluminum?

Mr. CASKIE. May I ask a question?

Mr. Husbands, I know you desire to recover as much of this money that has been spent by the Government for these aluminum plants as possible; is that correct?

Mr. HUSBANDS. Always.

Mr. CASKIE. I have found you that way in dealing with you in the past. Now, let me ask this:

There has accumulated a certain depreciation on these plants up to the present time. The RFC has been paid that depreciation. Am I correct about that?

Mr. HUSBANDS. Yes, sir.

Mr. CASKIE. The proposal made by Reynolds would provide that you would continue to receive 5 percent a year?

Mr. HUSBANDS. If you earned it; yes.

Mr. CASKIE. Well, if we didn't earn it wouldn't we pay part of it? Wouldn't we pay 15 percent?

Mr. HUSBANDS. Yes.

Mr. CASKIE. Assuming we are at least going to make the depreciation, and if we don't we are sunk and you are, too, you would continue to get your 5 percent over a period of 5 years which would be 25 percent in addition to the depreciation you already received?

Mr. HUSBANDS. That is assuming no loss in operation.

Mr. CASKIE. If there is any loss in operation—and I am assuming no loss—we are going to pay 15 percent of it?

Mr. HUSBANDS. Let's assume there is no loss in operation and you eliminate that requirement from the contract.

Mr. CASKIE. What requirement?

Mr. HUSBANDS. That we guarantee you against loss.

Mr. CASKIE. We haven't asked you to guarantee us against loss. We are willing to assume 15 percent of your loss.

Senator O'MAHONEY. Let me suggest that this is a very interesting question.

Mr. CASKIE. I want to answer Senator Revercomb's question. He wanted to know why we deducted depreciation, and I wanted to follow out on that with Mr. Husbands.

Senator O'MAHONEY. I was about to say it is a stimulating discussion, and it may not be that the Government can carry on its trading in public here.

Senator WHERRY. May I add that I think that is where they ought to do their trading, right out in public.

Senator O'MAHONEY. When you consider, Senator Wherry, that there are a lot of businessmen who are not in this business for purposes of philanthropy, I think the Government interest or the public interest may very well be worthy of a little conservation even by Members of the Senate.

Mr. HUSBANDS. I appreciate those kind words.

Mr. CASKIE. You had taken depreciation up to the present time on these plans over the last 3 or 4 years, say 4 years. You have taken thus far 20 percent of the depreciation.

Mr. HUSBANDS. They have operated about 2½ years, according to this record.

Mr. CASKIE. Whatever it may be, you have taken 12½ percent?

Mr. HUSBANDS. Yes, sir.

REYNOLDS OFFER NEVER ACCEPTED OR REJECTED—ITS TERMS DISCUSSED

Mr. CASKIE. If you entered into the agreement which I understand now you say you have rejected, which is news to the Reynolds Metals Co. as we thought we were negotiating with you on this proposition as late as last Friday—but be that as it may, if you had entered into a lease with Reynolds for the next 5 years, you would have gotten 25 percent more depreciation. Now, add that to your 12½ and you get 37½ percent depreciation. In other words, you recover 37½ percent of your investment in these plants.

Mr. HUSBANDS. I want to call your attention—and I don't want to enter into a controversy here—to the fact your 5 percent is not predicated on the original cost of the plant but on the depreciated value of the plant to $60,000,000. I think it cost $90,000,000.

Mr. CASKIE. Whatever the basis was, I think you have conceded that plants cost during wartime very much more than they would cost in normal times. Am I correct about that?

Mr. HUSBANDS. I think that is true.

Mr. CASKIE. Reynolds didn't ask for any allowance other than the proposal in that connection, did they? What I am trying to find out is why did you reject Reynolds' proposal?

Senator O'MAHONEY. That is an irrelevant matter at the moment. Pardon me, Mr. Caskie, but the opportunity will be given to Reynolds to testify later on. I am forced to call this particular phase of the hearing to a conclusion now because members of the committee have some other obligations that they have to meet. I think that Mr. Husbands has completed the statement he intended to make.

General Sorensen is here from the War Department and I think has a simple and brief presentation to make from the point of view of the War Department.

Senator MAYBANK. I would like to say one thing first. I never understood Mr. Husbands to say that Reynolds Metals' offer had been completely rejected. I understood him to say that it had not been accepted as it was. I would like to know whether I understood correctly.

Mr. HUSBANDS. That is correct. I think I used the words "I would not recommend it." Frankly, I never told Reynolds I would recommend it.

Senator MAYBANK. You never said it was out. I understood you just hadn't accepted it as it was.

Mr. HUSBANDS. That is right.

Senator MCCLELLAN. Mr. Husbands, as I understood you a while ago, if the Congress does not take some affirmative action indicating its rejection of the policy proposed to be pursued in this report, and if that action is not taken by Congress by the 21st, you would feel that the Congress had acquiesced in this program and the policies announced, and you would feel free to enter into contracts such as proposed by the Reynolds Metals Co.; is that correct?

Mr. HUSBANDS. I think I would be able to answer that, Senator, by saying we would look to the Surplus Property Board for guidance on that. They formulate the policies; we are the "man behind the counter," so to speak. We do the trading.

What we would do, if we had the right to do this, and the Surplus Board will direct us to do, is negotiate further with Reynolds or anyone else to get the best proposition we can.

Senator MCCLELLAN. Is there anyone here from Surplus Property?

Mr. HUSBANDS. Mr. Moment, I think, is here.

Mr. MOMENT. I could not answer that question, Senator, because that is a problem which Mr. Symington would personally have to pass upon.

Senator MCCLELLAN. What I am trying to determine is that if Congress takes no action to reject the proposed policy set forth in the report, or to extend the time for further consideration before the 21st, when the time expires, whether you interpret the law and its provision here that we are pursuing as giving you absolute authority to negotiate contracts on the basis of the proposal submitted by Reynolds which would definitely involve a subsidy to some extent. That is what I am trying to determine, whether we are just about to let the door close here on the 21st against us so that Congress could not prohibit or take action to prevent entering into a general subsidy program in the disposal of these plants. That is what I want to determine, whether we are about to let the door swing to on the 21st.

Mr. MOMENT. I would suggest that since Mr. Symington will be here again, or his counsel, that that question be brought before him by the end of these hearings.

Senator MCCLELLAN. I think it is important for us to know that and determine what we are doing.

I would like to ask one or two more questions of Mr. Husbands. I would like to ascertain just what occurred between your agency or the disposal agency of Surplus Products and Alcoa immediately preceding the cancellation letter on these plants. Was there any discussion about it previously whereby you undertook to make any arrangements for the interim operation of the plants?

STILL POSSIBLE FOR ALCOA TO TAKE TEMPORARY CONTRACT

Mr. HUSBANDS. I might state this, Senator, that I have a memorandum in my office of a conversation I had with Mr. Arthur Davis and Mr. Wilson in July, in which I stated, in substance, that we had some people interested in these plants and asked them if they would voluntarily give up their leases so that we could negotiate with these people. You understand we have been talking to various people now for 6 or 8 months, and there was always hanging over the situation the fact that Alcoa still had the contract. It was a futile sort of thing.

I also asked Mr. Davis whether Alcoa would be willing to impart the know-how which they had, because that seemed to be the stumbling block, particularly on alumina.

Senator MCCLELLAN. That is their secret in trade?

Mr. HUSBANDS. That is right.

Senator MCCLELLAN. And it belongs to them?

Mr. HUSBANDS. I don't blame them at all. I asked them, for there was no harm in that. Mr. Davis' reply was that they did not feel disposed to give up the plants under their lease, and they would not impart the know-how to anyone else, because that represented long years of experience.

Senator O'MAHONEY. But it is still possible, is it not, for Alcoa to take a temporary contract?

Mr. HUSBANDS. Yes, sir.

Senator O'MAHONEY. And Alcoa, by taking a temporary contract, can prevent these plants from closing on November 1?

Mr. HUSBANDS. They have been closed, Senator, but they would be able to reopen them and continue operations; yes, sir.

Senator REVERCOMB. Mr. Chairman, may I ask at this time that Mr. Symington be requested to be here to answer the question of Senator McClellan?

Senator O'MAHONEY. Certainly.

Senator McCLELLAND. Here is what has occurred. Not only are the folks who were working at the alumina and aluminum plants out of employment, but this thing has repercussions further back in the gas industry on these other people who are out of work because of it. I think there was a real obligation on the part of this Government and possibly on the part of Alcoa, to the people down there to keep these plants operating. I think there has been a complete failure somewhere on the part of someone to do it.

Now, you say that Alcoa wouldn't come back after you sent this letter and gave them 60 days' operation opportunity, and that is just what it amounted to if you canceled in 60 days, and Alcoa took the position that you didn't want them to have it anyhow. Both of you just went apart, and the result is we have had this impact on us of unemployment with these plants closing.

What I want to ask is where the fault lies that some real, sincere and genuine effort wasn't made to keep these plants in operation?

Mr. HUSBANDS. I think the answer is that after my conference with Mr. Davis there were a number of conferences with the Surplus Property people. They took it that it was their obligation to see that these plants were put into the hands of private people, other than Alcoa, and at their request we canceled the contracts. I was not present when the conferences was held between Mr. Symington, his counsel, and Mr. Davis and his counsel. Mr. Goodloe, our general counsel, was present at one conference with the counsel, I understand, for Alcoa. Mr. Goodloe stated this morning that after the conference they discussed the possibility of Alcoa having a long temporary period, I think 120 days, or even 6 months or a year. Counsel for Mr. Davis, I think, stated he didn't understand that they had talked about a year, but only 120 days.

Senator McCLELLAN. That very conference took place here this morning, and what little information I have been able to get about it clearly indicates to me that this matter, having the importance and significance it does, was not given any consideration by the Government in a sincere effort to try to keep the plants in operation, but that you are more interested in getting them out of business and canceling the lease than in getting some basis where they would continue in operation and continue in employment.

PURPOSE OF TERMINATION NOTICE TO ALCOA FURTHER EXPLAINED

Mr. GOODLOE. I think there is a good deal of misunderstanding about what is the nature and purpose of the notice of termination given to the Alcoa lease on August 30.

The purpose was to get a permanent 60-day cancellation in the lease, but otherwise to leave the lease in full force and effect. That is made perfectly clear by the following paragraph of the notice of termination itself:

> Notwithstanding this notice of termination and in order to assist in providing continued employment for aluminum workers until arrangements are made the disposition of these plants in accordance with the Surplus Property Act of 1944, offer is hereby made to Alcoa to permit Alcoa to continue to lease any or all the plants affected by this notice for a period of 1 year commencing September 1, 1945, and ending August 31, 1946, on the same terms and conditions as set forth in the agreement of lease as supplemented, except for the provision of paragraph 13—

which is the termination and the 40 percent formula—

> regarding regulation of production shall be waived in the entire and deemed to be of no further force or effect; and in lieu thereof either party, by giving 60 days' written notice, may terminate the lease with respect to plant or plants on which this offer if accepted any time during such year.

In other words, under our view of the interpretation of the Alcoa lease and the application of the 40 percent formula, they have been operating under the lease subject to a 60-day cancellation clause for several months before the notice was given.

I do not mean to imply by that they ever agreed with our interpretation of the contract and formula, but assuming our interpretation was correct, they had been subject to 60-day notice of cancellation for some time.

Senator O'MAHONEY. It is only fair to state, Mr. Goodloe, that the Surplus Property Board, the Defense Plant Corporation, or the RFC were operating under an express statute passed by Congress, a fact which was recognized in this notice of termination, because you say there:

> Notwithstanding this notice of termination and in order to assist in providing employment for aluminum workers until arrangements are made for the disposition of these plans in accordance with the Surplus Property Act of 1944 * * *.

I was just reading it again for emphasis. You had your orders from Congress, so you are not to be condemned, it strikes me, for attempting to carry out a policy which was laid down by Congress.

Mr. GOODLOE. All we wanted to do with get a cancellation notice, and as Mr. Cox testified this morning, we were certain that if we gave notice prior to September 1 we could cancel on 60 days' notice. We were by no means sure that if we did not give the notice prior to that date, we should ever again exercise the right, so we asked not for a termination of the lease but an amendment to provide for a 60-day right of termination by either party.

The notice of termination was accompanied by a letter written to Mr. Davis, which is very short.

Senator O'MAHONEY. Please read it.

Mr. GOODLOE. Yes. The letter reads as follows:

> RECONSTRUCTION FINANCE CORPORATION,
> *Washington 25, D. C., August 30, 1945.*
>
> Mr. ARTHUR V. DAVIS,
> *Chairman of the Board,*
> *Aluminum Co. of America, Pittsburgh, Pa.*
>
> DEAR MR. DAVIS: This is to confirm the following statements made orally today when I handed Mr. Arthur Hall, your Washington representative, an executed duplicate copy of the enclosed notice of termination of RFC's agreement of lease, dated August 19, 1941, with the Aluminum Co. of America covering certain aluminum reduction plants and certain alumina plants:
>
> 1. Because of the time element we are giving the notice of termination now for the purpose of protecting and preserving what we think are our legal rights under the contract.
>
> 2. We are perfectly willing and indeed are anxious to discuss the matter with you and your attorneys and if possible to adjust the whole matter on an amicable basis.
>
> 3. In the event we can arrive at a mutually satisfactory basis for adjusting the matter or should you convince us that we are wrong in our present position, we will withdraw the notice of termination.

While I am certain that Mr. Hall will convey this information to you as requested, I am taking the liberty of confirming it to you directly because we do not want you to feel that today's notice of termination is being given in a spirit of antagonism.

Very truly yours,

(Signed) JOHN D. GOODLOE,
General Counsel.

In the subsequent discussion with Mr. Hickman, at the time he delivered the acceptance of the Alcoa to the termination, we discussed whether or not there was any basis for their continuing on a 60-, 90-, or 120-day notice, and the statement was made that they were not even offered as much as 1 year.

I would like to insert in the record a memorandum which I wrote, following that conference, approved by Mr. Cox and your directors and included in the minutes.

Senator O'MAHONEY. It may be received.

(The memorandum referred to reads as follows:)

SEPTEMBER 8, 1945.

MEMORANDUM FOR THE DIRECTORS

Re Plancor 226—Notice of termination of the lease of certain aluminum reduction plants and alumina plants—Aluminum Co. of America

Reference is made to my memorandum of August 31, 1945, regarding the captioned subject.

At noon Thursday, September 6, Mr. Hickman, one of the attorneys for Alcoa, whom I had met for the first time at the Spokane hearing on August 21, called on the telephone to say that he would like to come by the office late that afternoon and talk briefly with me in advance of the meeting scheduled for 2:30 p. m., Friday, September 7, between representatives of RFC, representatives of the Surplus Property Board and representatives of Alcoa. I told Mr. Hickman I would be glad to see him but that I would not be in a position to discuss with him any aspects of the matter except the legal basis for the notice of termination of the lease. When Mr. Hickman arrived he stated that he had assumed that the basis of the notice of termination was that the Maspeth, N. Y., Burlington, N. J., and River Bank, Calif., plants having remained technically under the lease, that their productive capacity or a substantial part of it had been included in our application of the 40 percent formula for the period ending July 31, 1945. I showed him the attached statement of the production figures and the analyses of them which led us, with the concurrence of counsel for the Surplus Property Board and representatives of the Department of Justice, to the conclusion that RFC was in a position to terminate the lease by giving Alcoa the 60 days' notice.

Mr. Hickman next inquired concerning what we may have had in mind in regard to the statement made in our letter to Mr. Arthur Davis of August 30, 1945, that we were anxious to discuss the matter with representatives of Alcoa and if possible to adjust the whole matter on an amicable basis. He was informed that our objective was solely to obtain an arrangement whereby the lease could be terminated as to any plant or plants upon 60 days' notice so that we would be in a position to entertain negotiations for the disposition of the plants in accordance with the Surplus Property Act of 1944. He was advised further that if Alcoa would agree to an amendment or supplement to the present lease to provide such a 60-day termination notice, we were perfectly willing to withdraw the notice already given for the termination of the lease in its entirety as of midnight October 31, 1945. Mr. Hickman indicated that representatives of Alcoa would like very much to ascertain before discussing the notice of termination an official and current statement as to the attitude of the Government in regard to negotiating with Alcoa for the acquisition of any of the aluminum plants and facilities which they had operated for the account of the Government. He was advised that that was a matter which they should discuss with the Surplus Property Board and the Attorney General. Mr. Hickman left saying that he would attend the meeting at 2:30 on Friday but that he did not know whether or not Messrs. Davis, Wilson, and other representatives of Alcoa who were in town would attend that meeting.

Mr. Hickman was the only representative of Alcoa that appeared at the 2:30 meeting on Friday. Others present were Hugh Cox, Esq., general counsel, Surplus Property Board, Robert Barnard, his assistant, and Edgar A. Stansfield, assistant chief counsel, Office of Defense Plants.

Mr. Hickman presented the attached letter from the Aluminum Co. of America which he stated represented Alcoa's considered and final conclusion with respect to the notice of termination. In the discussion which followed, Mr. Hickman stated that Alcoa would not be interested in discussing any short-time lease or other arrangement for a temporary or interim operation of the leased plants, even on a basis of termination by either party on as much as 1 year's notice. He indicated further that while it might prove to be difficult for Alcoa to remove its property and equipment from the leased plants and be in a position to turn them over to the Corporation as of midnight October 31, Alcoa would make every effort to do so and would not want or accept any extension of that date. It was explained to Mr. Hickman that no difficulty or embarrassment would result if Alcoa could not complete the removal of its property and equipment from the leased plants by midnight October 31, 1945.

About 3:15 p. m., Friday afternoon there was delivered to Mr. Hickman by messenger from the Washington office of Alcoa draft of a press release which he stated Alcoa was planning to release immediately for the morning papers. He allowed us to read the proposed Alcoa press release. Both Mr. Cox and I asked that the release be held in abeyance for at least 24 hours in order that each of us might report back to our respective Boards but Mr. Hickman insisted that such would serve no useful purpose in that there was no area left for further discussion of negotiation and that Alcoa could not afford to withhold the issuance of its press release. It was quite apparent that Mr. Hickman was fearful that the Government might in the meantime issue its own statement to the press regarding termination of the lease. Finally, upon assurance from both Mr. Cox and me that such was not the purpose of the request and that such would not be done insofar as we were able to control it, Mr. Hickman indicated that the request was not unreasonable and he discussed the matter on the telephone with Mr. Arthur Hall, assistant secretary of Alcoa. A few minutes later Mr. Hickman, after talking again with Mr. Hall, advised that Alcoa would be agreeable to not issuing its release until 11 a. m., Saturday, September 8, provided definite assurance was given that none of the Government agencies at all would release a statement to the press on the termination of the Alcoa lease for use by the press earlier than Monday, September 10.

Mr. Hickman was advised that such an understanding would not be at all satisfactory and he left. Following Mr. Hickman's departure Mr. Cox and I met with Mr. Husbands and Mr. Mulligan in Mr. Husbands' office and a few minutes later we were joined by Mr. W. Stuart Symington, Chairman of the Surplus Property Board, whom Mr. Cox had reached on the telephone and asked to come to Mr. Husbands' office at once.

Mr. Cox and I made a full report of the discussion with Mr. Hickman following which the attached press release was drafted and issued by the Corporation, with the approvel of Mr. Symington and Mr. Cox.

(Signed) John D. Goodloe,
JOHN D. GOODLOE.

Senator REVERCOMB. May I interrupt just a moment?

When you speak of a 1-year notice of termination, what terms are you going to make? What terms would be continued?

Mr. GOODLOE. We had a conference to find out whether there was any area in which there might be further discussion. There was no proposition made whatever. We had no authority to make an offer on behalf of RFC, nor did Mr. Hickman, I presume, on behalf of Alcoa.

Senator REVERCOMB. The whole discussion here has been concerning the offer made to Alcoa with the idea of an extension of 1 year or a new lease for 1 year with the 60-day termination. You say you discussed with the representative of Alcoa a 60-day basis, a 90-day basis, a 120-day basis, and a year's basis for notice of termination. Now, would you have a year's notice of termination in a year's lease?

Mr. GOODLOE. You could not. I did mean to imply that the discussion had reference to actual negotiations with reference to the particular offer that had been made. It was whether or not there was any basis for further discussion on a short-term basis.

Senator O'MAHONEY. This is not a new lease you are talking but an extension of an old lease which would not have terminated, unless you canceled it, until sometime in 1948?

Mr. GOODLOE. Either way it made no difference whether it was an extension of an old lease or a new lease on the same terms and conditions.

Senator O'MAHONEY. You were impelled by the conviction, as a lawyer, that unless a cancellation notice were given, you would not have an opportunity again to cancel the lease which might otherwise then have run until 1948?

PURPOSE OF NOTICE WAS NOT TO TERMINATE LEASE BUT MAKE POSSIBLE FURTHER NEGOTIATION

Mr. GOODLOE. That is correct. In other words, what I am trying to get across is that the purpose, as I understand it, of the notice of termination was not to terminate the lease but to get a 60-day cancellation provision in the lease so that we would be in a position to negotiate under the Surplus Property Act.

Senator O'MAHONEY. In other words, your right to cancel was running out, as you saw it. VJ-day had come, and you were uncertain as to how long it would be proper to continue the manufacture of aluminum, and you didn't want to close the plants. You wanted to keep them working. In order to save the right of the Government to cancel these leases you wrote this letter, in which you stated that you were anxious to negotiate a satisfactory basis with Alcoa to keep the plants running.

Mr. GOODLOE. Precisely. I might say that we endeavored to get them to agree to accept the 60-day cancellation clause, making the statement that we were reasonably sure the notice could not be given until such time as a deal had been worked out for disposition under the Surplus Property Act.

Senator REVERCOMB. I am very much interested in the summary of your statement made by the able chairman, which, for a question, was just a little leading.

Senator O'MAHONEY. Leading in the right way, I might say.

Senator REVERCOMB. When we talk about VJ-day having come and talk about your losing your right to give notice under the lease, that right to give notice continued as long as they were below 40-percent production in those plants?

Mr. GOODLOE. For a 6 months' period on the average.

Senator REVERCOMB. VJ-day had not come, and yet it was not reasonable to think that in the future there would be a demand for more aluminum. Before VJ-day it had dropped below 40 percent, and it certainly would have stayed below 40 percent after VJ-day, wouldn't it?

Mr. GOODLOE. There was a discussion of that this morning. I am not prepared to discuss that. The whole basis for the application of the 40-percent formula, though, would have changed. Two of the plants that had been subject to the lease and as to which the 40-percent formula applied were terminated and withdrawn from the lease effective midnight August 31. These were, as I recall it, Queens and Burlington. The Riverbank, Calif., plant was terminated and withdrawn from the lease effective August 31, so that those plants would be out from the formula of 40 percent.

Senator REVERCOMB. The part I am getting at is if one may judge by what may happen in the future, it was more reasonable to believe it would stay below 40 percent after VJ-day than it was before; is that correct?

Mr. HUSBANDS. I could answer that this way: As I stated a moment ago, Mr. Davis told me they were not disposed to give up these plants. That was in July. Of course, they could continue to operate Government plants and reduce operations in their own plants, in order to hold these plants.

Senator REVERCOMB. Would they have made more money doing that?

Mr. HUSBANDS. I don't know.

Senator REVERCOMB. They got their whole profit from their own plant and gave you most of the profit from the Government plants. It is not reasonable to assume they would do that, is it?

Mr. MOMENT. In drafting this report, we were under the distinct impression, as a result of conferences between RFC and the SPB with Alcoa, that Alcoa was pursuing the specific policy of holding onto these plants in order to avert the prospect of some new competition coming in.

Senator REVERCOMB. You got the impression that was the motive?

Mr. MOMENT. We got that impression from the point that Mr. Husbands first made regarding his conversation with Mr. Davis.

Senator REVERCOMB. That they would close up their own plants in which they received 100 percent of the profit to operate plants of the Government when the Government received 85 percent of the profit?

Mr. MOMENT. That question was not involved, because there was no expectation they would cut down all of their production following the end of the war.

Senator MCCLELLAN. Were you under the impression, or did you proceed on the basis that you could better negotiate the sale or lease of these plants to others after you got Alcoa out of possession? Do you have some information or statements to that effect from prospective purchasers or operators of the plant?

Mr. HUSBANDS. I think I can answer your question this way, Senator. We are conducting lots of negotiations on plants. We find that where a plant is in operation and the closing down of the plant is indefinite, it is almost impossible to get a definite proposition out of the proposed purchaser or lessee because he wants to know when he can get the plant. Prior to the cancellation of the contract, the date as of which any proposed lessee could get a plant was very indefinite because Alcoa's firm contract would not expire until 1947 in one instance and 1948 in the other. Therefore, we were disposed to say, in talking to lessees, "We don't know when you can get this plant." Therefore, they would not get right down to brass tacks and make a proposition.

Senator REVERCOMB. Is it not true that some of those who have since made a proposition told you they would not submit one until you got Alcoa out?

Mr. HUSBANDS. No; I never had that statement made to me by anyone, sir.

Senator REVERCOMB. I thought I understood you to say that in another case?

Mr. HUSBANDS. No, sir.

Senator REVERCOMB. I got the impression that in your efforts to negotiate prior to the time you gave this notice of cancellation, you ran into trouble.

Mr. HUSBANDS. I think that is true, Senator, that most anybody would not make their final play on a lease until they knew they could get the plant.

Senator REVERCOMB. Then, I have this in mind: It did impress me that one would be more interested in securing possession of a plant that was in a going operating condition than they would if it had been completely closed down and had to stand by for quite a long time.

Mr. HUSBANDS. That is true.

Senator REVERCOMB. I thought, and have been thinking, in terms of these plants which are worth more to the Government in bargaining power for lease or sale if they had been kept operating, and that the Government now is possibly sustaining a loss not only in the expense and cost of keeping them up in a stand-by position, but also in the fact that you have let them close down and will have to reassemble labor, manpower, and make all the arrangements, which has put you at a considerable disadvantage in negotiating the sale or lease of them.

PLANTS MUCH MORE VALUABLE AS GOING CONCERNS

Mr. HUSBANDS. I agree with you that the plants are much more valuable as going concerns, because once you close a pot line down it costs between $30,000 and $35,000 to reopen it. That was the purpose in this correspondence with Alcoa, to continue to run the plants so we could pass them out as going concerns.

Senator REVERCOMB. In that connection, let me ask you as a businessman and representative of the Government in that capacity here: Some statement was made, I believe by Mr. Wilson today, or someone—and maybe it was off the record—that they could not operate on a 60-day-cancellation basis, because no one could safely program that size operation, with all it involved, on a business basis with a 60-day-cancellation clause hanging over them. What do you say about that?

Mr. HUSBANDS. I will have to disagree to this extent. The RFC has, since the cancellation agreed to buy all the raw material on hand that he has, and all the supplies he has on hand incident to the operation, and I think if we could have gotten together and talked about the thing, Mr. Wilson could have arranged to have operated the plants because we would have been in a position to buy the raw materials left and the other things incident thereto. Whether it was a 60-day or 90-day notice, I am not in a position to say.

Senator REVERCOMB. That is a very short time for an operation of this character?

Mr. HUSBANDS. I would think so, yes.

Mr. GOLDSCHMIDT. When you canceled the agreement with Alcoa, did they give you any notice of when they planned to shut down?

That agreement didn't terminate until November 1.

Mr. HUSBANDS. I think they wrote back and stated that they would be ready to deliver the plant to the RFC on the 1st of November.

Mr. GOLDSCHMIDT. But they shut down the plants immediately; isn't that right?

Mr. HUSBANDS. Yes. Under their contract with us they have to clear the plant and have it ready for delivery to us, so they were within their rights in doing what they did.

Mr. GOLDSCHMIDT. Did they give any notice to you when they shut those plants down? Did you have notice of the fact they were going to shut them down when they did?

Mr. HUSBANDS. Not the exact day; no, sir.

Mr. GOLDSCHMIDT. Because they sure hurried us upon that shut-down, both in the Northwest and in Senator McClellan's territory.

Senator MCCLELLAN. Did you give them notice the day before you issued the cancellation that you were going to issue it the next day?

Mr. HUSBANDS. I would not know about that, Senator.

Mr. GOLDSCHMIDT. The programing of a shut-down like that is very difficult for a power operation, and we had to meet that rather difficult period without any notice whatsoever.

Dr. ANDERSON. As a matter of fact, at the time you gave notice they were already in a partially shut-down position. Some of the plants were running two instead of five pot lines, and generally speaking you had a very much depressed industry at that time. Wasn't that the case?

Mr. HUSBANDS. Yes. As I recall it, I think Arkansas was running 50 percent, Troutdale was running 75 probably, and Spokane had about one pot line idle out of six, as I recall the situation.

Senator WHERRY. Following Senator McClellan's question there, you state now you would buy the product, whatever it was, left there. Did you offer to do that before they shut down?

Mr. HUSBANDS. No, sir.

Senator WHERRY. Why didn't you?

Mr. HUSBANDS. The question didn't arise, sir.

Senator WHERRY. You analyzed this lease all down, and you required him to operate on a 60-day schedule. That is what it amounts to?

Mr. HUSBANDS. Yes.

Senator WHERRY. And they told you they couldn't do it. If they couldn't do it, it seems to me if you could have assured them you would buy their output, you might have kept those plants going even though you gave them the notice. You could give them notice you were going to terminate, but if you could buy the products they might have operated until the last day.

Mr. HUSBANDS. You understand this, that under our contract with them the RFC would stand all the loss, anyway, so if they had closed down and had a loss, the RFC would have to stand that loss.

Senator WHERRY. What reason did they give for not continuing?

Mr. HUSBANDS. They didn't give any reason. They merely said that in accordance with our letter, they were closing down their plants, because it would take them 60 days to clear out.

Mr. GOLDSCHMIDT. It didn't take them more than 15 minutes to cut off the power.

Senator O'MAHONEY. I think we have about covered this question as far as we can this afternoon.

Senator WHERRY. The committee is very much indebted to you, Mr. Husbands. You have been able to answer the questions without notes, and you seem to know precisely what was done. I think you are to be complimented.

General Sorensen, do you care to go on now?

General SORENSEN. That will be satisfactory.

Senator O'MAHONEY. Will you proceed? Will you give the reporter your name and the position you hold with the War Department?

STATEMENT OF BRIG. GEN. EDGAR P. SORENSEN, OFFICE OF THE UNDER SECRETARY OF WAR

General SORENSEN. Brig. Gen. Edgar P. Sorensen, from the Office of the Under Secretary of War, stating the War Department's view with respect to the disposition of aluminum producing plants, including alumina plants.

The interest of the War Department is based upon a need for assurance that materials will be available quickly at the time of any future emergency.

Because of the critical requirement for aluminum for air forces, the first essential in defense of the United States, any foreseeable lack of availability must be avoided. The War Department, therefore, believes that any disposition made of the Government-owned alumina and aluminum plants should be that their continued availability as sources of aluminum production would be assured.

If disposal cannot be made on such assurance, the War Department urges that approximately 450,000,000 pounds per annum, which is approximately 50 percent of the Government-owned plants, be retained in stand-by condition.

That really states the War Department's position, as far as retention or continued production is concerned. We are concerned with it simply because of the national defense requirement, which may come suddenly or without much time to build it up.

Senator O'MAHONEY. Thank you very much, General Sorensen.

Mr. ANDERSON. I didn't hear all the General's testimony, but do I take it that the War Department or the Army-Navy Munitions Board has not as yet developed implementation of a stock-piling program?

General SORENSEN. No, that is not true. They have made their plans for stock piling, and because of the better quality of at least some of the imported bauxite, the plan thus far contemplates stock piling of a good bit of bauxite.

Mr. ANDERSON. For an imported bauxite?

General SORENSEN. That is right.

Mr. TROY. What tonnage?

General SORENSEN. I don't know for sure but I believe that figure is confidential. I would rather not quote it. It is rather substantial, however.

There is also a provision for a certain amount of metal, aluminum metal, in a stock pile. However, there is a maximum stated rather than a minimum, and I think it is primarily to encourage the importation of a certain amount of good bauxite while we can.

Mr. TROY. Is that figure also not available, the stock pile of the metal, itself?

General SORENSEN. I think that is confidential, too.

Mr. ANDERSON. You say, General, the figure on the amount and the type factor in stock piling, both bauxite and metal, could be made available to the committee?

General SORENSEN. Oh, yes; I am sure it could.

Mr. ANDERSON. Will you see that we get it?

General SORENSEN. Yes, sir.

Senator O'MAHONEY. General, we are very much obliged to you.

I have here a communication from Mr. Henry J. Kaiser stating his inability to accept our invitation to appear before us at this time, which I ask be incorporated in the record.

(The communication referred to is as follows:)

KAISER COMPANY, INC.,
IRON AND STEEL DIVISION,
Oakland, Calif., October 16, 1945.

Senator JOSEPH C. O'MAHONEY,
Chairman, Joint Senate Committee on Aluminum, Washington, D. C.:

I greatly appreciate your invitation for me to appear during your present hearings on the disposal of Government-owned aluminum plants. Unfortunately I have just returned here after several weeks absence and due to previous and important commitments find it impossible for me now to be in Washington. Our interest in certain Government-owned aluminum plants is still the same as stated by our Mr. Calhoun at the subcommittee hearing of the Meade committee at Spokane, Wash., August 22, and which is part of that record. Our studies which he stated then were underway are not yet complete. My absence from your hearing should not be interpreted as a lack of interest. I will not be able to finally evaluate the basis for any proposal to the Government until our studies are completed and we have had an opportunity to analyze them.

HENRY J. KAISER.

Senator O'MAHONEY. The committee will stand recessed until 10 a. m. tomorrow morning, in room 224.

(Whereupon, at 4:30 p. m., a recess was taken until 10 a. m., Tuesday, October 16, 1945, in room 224, Senate Office Building.)

(By direction of the chairman, the following material, relating to the termination clauses in the agreement of lease between the Defense Plant Corporation and the Aluminum Co. of America, is inserted at this place in the hearings:)

TERMINATION PROVISIONS OF ALCOA LEASING CONTRACT

The original agreement of lease between the Defense Plant Corporation and the Aluminum Co. of America, dated August 19, 1941, provides, in paragraph 13:

* * * that if such production shall for any six (6) months' period average less than forty percent (40%) of aggregate productive capacity, either party hereto may, at its election, terminate this agreement upon sixty (60) days' written notice to the other.

Article 22, of the same document, carries the following:

Notwithstanding the other provisions herein contained, Defense Corporation, by notice in writing, may cancel this agreement in the event (a) that a receiver or trustee is appointed for Alcoa or its property, or Alcoa makes an assignment for the benefit of creditors, or Alcoa becomes insolvent, or a petition is filed by or against Alcoa pursuant to the provisions of the United States Bankruptcy Act, as amended, for the purpose of adjudicating Alcoa a bankrupt, or for the reorganization of Alcoa, or for the purpose of effecting a composition or rearrangement with Alcoa's creditors, and any such petition filed against Alcoa is not dismissed within sixty (60) days; or (b) of any violation of any terms, conditions, or covenants of

this agreement by Alcoa, and the failure of Alcoa to cure such violation within thirty (30) days from the giving of written notice thereof by Defense Corporation to Alcoa.

A supplemental agreement to the agreement of lease, entered into December 20, 1941, contains paragraph VII, reading as follows:

In the event any smelting plant which is described in said Agreement of Lease, as supplemented by this Supplemental Agreement, and which is leased by Defense Corporation to Alcoa shall not be operated by Alcoa for a period of six successive months after such plant shall be ready for substantially full operation and Defense Corporation shall not have consented in writing to such plant not being operated, either party hereto may at its election terminate the lease as to such plant upon thirty (30) days' written notice to the other. Notwithstanding anything contained in said Agreement of Lease or in this Supplemental Agreement, Alcoa agrees that it will maintain production in the leased smelting plants and the owned smelting plants at not less than such rate of capacity as may be necessary to produce the maximum amount of aluminum which, together with accumulated stocks, can be sold at prices which will yield a reasonable profit. If at any time, in the opinion of Defense Corporation, Alcoa is not maintaining such rate of production, Defense Corporation and Alcoa shall agree on a rate of production which in the opinion of Defense Corporation complies with the rate of production specified in the preceding sentence, and in the event of failure to agree upon such rate of production Defense Corporation shall then have the right upon six (6) months' notice in writing to Alcoa to cancel this agreement.

A second supplemental agreement to the agreement of lease under date of January 21, 1943, contains article IV, as follows:

All of the terms and provisions of paragraph 13 of the Agreement of Lease dated August 19, 1941 (except the first two sentences thereof), as supplemented by paragraphs VII, VIII, and IX of the Supplemental Agreement dated December 12, 1941, shall apply to the aluminum smelting plants and the additions to aluminum smelting plants described in article I of this Second Supplemental Agreement to the same extent as if such aluminum smelting plants and additions to aluminum smelting plants had been originally included in the plants described in paragraph 2 of said Agreement of Lease dated August 19, 1941, except that, whenever and as long as the aggregate annual rate of production of all aluminum smelting plants leased to Alcoa under the terms of the Agreement of Lease as Supplemented and under the terms of this Second Supplemental Agreement is in excess of five hundred twelve million (512,000,000) pounds, the provisions of said paragraph 13 of the Agreement of Lease dated August 19, 1941, as supplemented by the provisions of paragraph VII, VIII and IX of the Supplemental Agreement dated December 12, 1941, for the regulation of the rate of production in all such leased aluminum smelting plants and in the owned aluminum smelting plants shall not apply, but in lieu thereof the following terms and provisions shall then apply:

(1) Alcoa agrees that it will from time to time operate all aluminum smelting plants owned by it and those leased to it by Defense Corporation, at such aggregate rate of production within their capacity as Defense Corporation, upon the recommendation of War Production Board, considers necessary for the war effort and for civilian requirements, provided that if at any time or from time to time Alcoa has accumulated a total inventory of more than four hundred fifty million (450,000,000) pounds of aluminum, Alcoa may then give written notice to Defense Corporation of its desire to reduce production and the monthly rate at which it desires to reduce production, and Alcoa may make such reduction or reductions subject to the right of Defense Corporation at any time within thirty (30) days after date of said notice either (a) to designate at which of said leased aluminum smelting plant or plants the production shall be so reduced, or (b) to give Alcoa the purchase order of Defense Corporation, or its nominee, or other properly constituted agency or department of the Government for the purchase from Alcoa at current prices for a specified number of months the whole or any part of the quantity of aluminum by which monthly production is desired to be reduced. In the event Alcoa receives such a purchase order, no reduction in production shall be made except to the extent that the proposed reduction is not covered by such purchase order. Notwithstanding anything contained in this article IV Alcoa agrees that it will at all times store, without

cost to the purchaser, all aluminum so purchased at the plant or plants in which it is produced so long as the lease of said plant or plants to Alcoa continues in effect.

(2) Defense Corporation shall have the right to direct Alcoa in writing to cease operations in any leased aluminum smelting plant or part thereof, and Alcoa agrees to cease operations in the plant or part thereof so designated as rapidly as raw materials then on hand can be used up, but in no event later than three (3) months after the date of said direction.

(3) In the event any such leased aluminum smelting plant after it shall be ready for substantially full operation has not been operated, or has been shut down pursuant to the provisions of paragraph (1) or (2) of this article IV, for a period of three (3) successive months, either party hereto may at its election terminate the lease as to such plant upon thirty (30) days' written notice to the other, and after the date of said notice Alcoa agrees to remove its property from such plant as promptly as reasonably possible, but in no event later than three (3) months from the date of said notice.

(4) If any aluminum smelting plant leased by Defense Corporation to Alcoa shall, after it has been placed in operation, be shut down for a period of one (1) month, operation of such plant shall not be resumed without the written consent of Defense Corporation.

(5) In the selection by Defense Corporation of Alcoa of aluminum smelting plants in which production is to be reduced, or operations terminated, the general principle to be followed shall be to eliminate the plant or plants or parts thereof least economical to operate.

ALUMINUM PLANT DISPOSAL

WEDNESDAY, OCTOBER 17, 1945

JOINT HEARING OF THE SUBCOMMITTEE ON SURPLUS PROPERTY DISPOSAL OF THE COMMITTEE ON MILITARY AFFAIRS, THE SPECIAL COMMITTEE TO STUDY AND SURVEY PROBLEMS OF SMALL BUSINESS ENTERPRISES, AND THE INDUSTRIAL REORGANIZATION SUBCOMMITTEE OF THE SPECIAL COMMITTEE ON POSTWAR ECONOMIC POLICY AND PLANNING

UNITED STATES SENATE,
Washington, D. C.

The committees met, pursuant to recess, at 10 a. m., in the caucus room, Senate Office Building, Senator Joseph C. O'Mahoney (chairman of the Subcommittee on Surplus Property Disposal) presiding.

Present: Senators O'Mahoney (chairman), Murray, Wherry, Revercomb, and Taylor.

Also Present: Senators Hayden, McClellan, and Robertson.

Kurt Borchardt, counsel, Surplus Property Subcommittee of the Committee on Military Affairs; Dewey Anderson, executive secretary; C. E. Childe, consultant; and T. J. McBreen, chief of information, Special Committee To Study and Survey Problems of Small Business Enterprises.

Appearances same as heretofore noted, with the following additional appearances:

On behalf of Industry:

Arthur P. Hall, assistant secretary and district manager, Washington Office, Aluminum Co. of America.

Oscar Ewing, attorney, Aluminum Co. of America.

Roger W. Straus, president, American Smelting & Refining Co.

M. B. Littlefield, industrial development engineer, American Smelting & Refining Co.

Senator O'MAHONEY. The committee will be in order.

Acting Chairman Olds, of the Federal Power Commission, will be the first witness, to discuss some of the power aspects that are raised by this problem.

STATEMENT OF LELAND OLDS, ACTING CHAIRMAN, FEDERAL POWER COMMISSION

Mr. OLDS. Mr. Chairman, I am going to start what I have to say by relating it, if possible, to what I saw in the most recent report of the committee on the power aspects of the problem of creating a competitive situation in the field of aluminum.

I would like first just to make some suggestions about the availability of cheap power from the several Government river-basin developments.

SECONDARY ENERGY AMOUNTING TO 4,725,000,000 KILOWATT-HOURS AVAILABLE IN COLUMBIA RIVER AND TVA TERRITORY

In the first place, without taking into account the extent to which it may be at present allocated, I want to suggest that there is a considerable amount of secondary power, or secondary energy, available in the Columbia Basin and in the TVA territory. Our estimate places the secondary power from the Bonneville project at approximately 600,000,000 kilowatt-hours; from the Coulee project, when all the generator units have been installed, at about 2,355,000,000 kilowatt-hours; in the TVA area, in the TVA system, approximately 1,770,000,000 kilowatt-hours—or a total from existing projects in those two basins of approximately 4,725,000,000 kilowatt-hours.

Just equating it on the basis of 10 kilowatt-hours per pound of aluminum, that represents secondary energy available, without taking into account the extent to which it has already been allocated, from these Government hydro projects, sufficient to produce something like four hundred and seventy-odd million pounds of aluminum.

In addition to the secondary energy available from these specifically mentioned Government river basin projects, I would like to call attention to another aspect of the matter, namely, the availability of primary energy on an "at site" basis.

Of course, it should be pointed out that transmission costs may be, and in terms of a large system are, a very important consideration in determining the rate at which power can be sold, or the cost of power delivered.

In the Bonneville system, at present the transmission investment is running at pretty close to $100 per kilowatt, which means that in considering power delivered from the transmission system, you are considering power where the investment cost may be nearly doubled as compared with that involved where power is delivered, to all intents and purposes, at the site.

ALUMINUM PRODUCTION SEEKS POWER, USUALLY, CLOSE TO POINT OF GENERATION

Aluminum production has characteristically sought, so far as it has been able to seek it, power available very close to the point of generation. The present "at site" rate for primary power under the rate schedules of the Bonneville Administration is $14.50 per kilowatt-year. However, if Congress were specifically interested in the possibility of making power available for aluminum production on a competitive basis, and for that purpose attempting to secure the lowest possible rates for power without subsidy, consideration could be given to the fact that power, primary power, primary energy, can be delivered at the sites of certain of the Federal power projects at a figure falling in the range of 1 mill to 1½ mills.

That is true of power at Boulder—there was a discussion yesterday of the cost of power delivered to a plant at Los Angeles. Of course, that is at the end of a transmission system, a transmission line, that is over 275 miles long, and the cost of Boulder energy delivered at Los Angeles is more than double the cost of Boulder energy produced at the power plant.

So that it seemed to me that in giving consideration, in the committee giving consideration to the availability of low-cost power, it ought

to take into account not only the availability of secondary energy but also the availability of primary energy "at site," and consider the question whether or not it wished to recommend some kind of a policy so that the sale of that power "at site" could be on a basis which would establish the low rates of 1 to 1½ mills which are necessary to improve the competitive situation of the aluminum plants if taken over by various private enterprises.

That brings me to the possibility of providing low-cost power, power at a mill or slightly over a mill, by making a combination of "at site" power and secondary power. It is true that the aluminum plants that are being discussed have been so located that they do not come within the classification of "at site" plants. When we were considering, during the period when these plants were being located, the location, for instance, of the plant that is now located at Troutdale, we felt that it should have been located at a point at which it could have had available "at site" power, probably at Cascade locks, but it was certainly possible to locate it within the range of "at site" power. That was not done. But it is just possible, as a consideration that might be discussed by your honorable committee, that the Congress in considering the availability of "at site" and secondary power in combination could, instead of considering the possibility of any kind of a subsidy through power cost, establish a policy by which the Government power agencies could consider these plants—which were located, in terms of other considerations, at a point where you cannot consider them "at site"—could still consider them, for purposes of rate-making, as if they were located "at site."

In other words, you have got the alternative that certain aluminum capacity in the Columbia area could be taken up bodily and moved to the point where it could have available "at site" rates for the power, and then "at site" rates coupled with secondary rates could make power available at a mill or a mill and a half; or, because other considerations caused their location where they have to buy transmitted power, it might be possible to establish the principle, in some way or other, that Government agencies, in selling this power, could consider that these plants were located "at site" and so not involve the necessity, and the costly necessity, of moving the plants, moving the pot line, so that they could get the advantage of "at site" rates.

Mr. GOLDSCHMIDT. May I ask a question there, Mr. Chairman?

Senator O'MAHONEY. Certainly.

Mr. GOLDSCHMIDT. Was it your idea that something be done to provide for our costs in transmission between the present locations of these plants and their "at site" location?

Mr. OLDS. I think, if the committee or the Congress should finally determine the policy I have suggested—adopt that policy—then thereby they would legislatively, or in whatever way is necessary, amend the rate provisions of the present Bonneville Act in such a way that you would not be burdened with the amortization and interest cost of that portion of the transmission which would be involved in transmitting this power from an "at site" status to wherever these aluminum plants are.

Mr. WILSON. May I ask the Chairman of the Power Commission, would he feel the same thing should be done so far as present contractors in private industry are concerned?

Mr. OLDS. I would not make any recommendation on that. I think that would be up to Congress to determine, in terms of its interest in establishing or attempting to establish a competitive situation so far as power costs were concerned.

Mr. ANDERSON. When you used the illustration, in answer to a question a moment ago, of Bonneville power and transmission costs, I take it that was just an illustration that you had in mind; and that you had in mind that wherever public power has been developed and these problems have arisen, you would reexamine the costs in terms of these particular problems and the rate to be charged there.

Mr. OLDS. Yes; I would reexamine it on the theory that these projects could have been, if the powers that be had so chosen, located at points where you would have had the advantage of the equivalent of "at site" rates, and that that could be a consideration in Congress determining the policy as to the sale of power to these Government aluminum plants.

Mr. ANDERSON. Wouldn't that require an amendment, at least, to the several acts under which these various power projects now operate?

Mr. OLDS. I think it would require an amendment insofar as the acts specify—and there are only a few of the acts like the Fort Peck and the Bonneville Acts that today specify the basis on which rates could be approved. I think if Congress laid down that policy, it would be possible in other basins where the legislation hasn't defined the precise basis of rates, if Congress adopted that as a policy, to take that into consideration when approving rates.

Mr. GOLDSCHMIDT. I think Congress also adopted the same policy in the Flood Control Act of 1944 with respect to the project, say, in Senator McClellan's territory, and the projects that the Army is building in the other basins. At least I think that the language is almost identical with the Bonneville and Fort Peck Acts with respect to rates.

Mr. OLDS. If it is, then it would require, I think, a small amendment—I think it could be very easily drafted—to those acts, which would make it possible for the Government to sell primary and secondary power on an equivalent to an "at site" basis to these aluminum plants.

Does that answer your question?

Mr. GOLDSCHMIDT. Yes.

Mr. OLDS. I would like to point out in this connection that in terms of the long-range policy of attempting to create a competitive situation in the aluminum industry, there are other projects coming along. We are not limited to simply Bonneville and Grand Coulee and the present TVA project. There are additional projects already coming up over the horizon in the Columbia Basin, and in the design and planning of those projects consideration could be given, among other things, to making power available for aluminum production. The Colorado Basin also has some new projects coming along above Boulder. And I also want to mention the fact that public development or redevelopment of the power at Niagara Falls, taking advantage of the full head—and if Congress authorizes the St. Lawrence project—both those projects are capable of making power available "at site" for very little over 1 mill per kilowatt-hour. And the Government today owns pot lines at Massena, N. Y.

ADDITIONAL POWER PROJECTS MAY BE EXPECTED

In connection with what I have said, I would like just to point to the fact that the Aluminum Co. of America has always considered power costs and control of cheap power as one of the elements in the preservation of its control of the aluminum market. The Federal Power Commission, in connection with some of its investigations, among other things came upon the fact that in the original contract which the Aluminum Co. of America made with the Niagara Falls Power Co., for perhaps the cheapest power supply that has even been purchased in the United States—I think that that is an accurate statement, power which they get directly from the shaft that comes up from the turbines, at about $8 a horsepower-year, my recollection is, and they have the cost of putting the generators on and transmitting it to the top of the bank of the Niagara River—that original contract carried a provision that the Niagara Falls Power Co. should not, or would not, sell power to any other company for the production of aluminum. In other words, when they made that contract they wanted to make sure that no other competitor could come in and get power as cheaply as they were buying it from the Niagara Falls Power Co. or its predecessor.

That policy has run through the whole development, or the whole history, of the Aluminum Co. of America. They have found the sites where the cheapest power could be developed; and then, to the extent that they were able, have secured whatever rights were necessary in order to be able to have that power exclusively for their own manufacture of aluminum. They have considered that an important element in building their control of the market.

ALCOA UNWILLING TO DEVELOP POWER UNDER FEDERAL LICENSE

I want to point out one other thing in that connection, and that is that as a matter of policy, the Aluminum Co. has taken the position that it would not develop power under a Federal license such as is provided for in the Federal Power Act. Our most recent instance of that was in connection with the proposed development of Fontana by the Aluminum Co., which led ultimately to arrangements by which the TVA developed that power. Their studied refusal to take out a license for their water-power developments is interesting in the light of their own statement in their brief in the case that was before the courts involving the question of whether they were in violation of the Sherman Act. In that brief they referred to the licenses that the Federal Power Commission issues as follows:

> The necessity for a 50-year license from the Federal Power Commission before any dam may be built that affects a navigable river, the resulting power of the Commission over the amortization and depreciation of the project, and the ultimate power of the Federal Government to take over the development, are further reasons suggesting the inherent unlikelihood of anyone even attempting to monopolize the water powers of this United States.

Apparently they recognize that the Federal Power Act was designed to prevent a monopolization of the water powers, and in spite of that fact they are unwilling to develop power under a Federal license.

There is just one other thing I want to suggest, in terms of the question of the relationship of power costs to this competitive situation,

or the potential competitive situation, in the aluminum industry. There has been a good deal said in the discussion, questions asked, and so forth, that indicated a feeling of "question mark" against any kind of a subsidy for the development of this competition in the aluminum industry.

I want to suggest that in effect Alcoa power is today available to the Aluminum Co., to all intents and purposes, on a subsidized basis. In other words, the Aluminum Co. today, because the greater part of its investment has been provided through the prices paid by consumers, not only for the power which they develop but also for the capital investment in the actual production of aluminum in its various stages, the extent to which that has been provided out of prices and not as paid-in capital represents, in effect, an amortization of the capital which they today have invested in the business all the way from the power plant and the bauxite deposits to the finished aluminum product.

ALCOA'S POWER PLANTS, TO CONSIDERABLE EXTENT, ENJOY SAME STATUS AS SHIPSHAW DEVELOPMENT, IN THAT THEIR DEVELOPMENT CAPITAL HAS ALREADY BEEN ABSORBED IN PRICES CHARGED CONSUMERS

To all intents and purposes the Aluminum Co. today, if it faces competition, can consider that its only costs, so far as power is concerned, are the operating costs of the hydro projects; and the operating costs of hydro projects are a very small part of any power costs. The major cost in the development of hydro and in the cost of power delivered, for any purpose, is the investment cost. And the fact that consumers, over the nearly 50 years in which the Aluminum Co. has been operating, have, to all intents and purposes, provided the funds necessary for such investment, which has in effect amortized many times over the original investment, means that to a considerable extent, or in effect, the Aluminum Co.'s power plants all over the country enjoy approximately the same status as the Shipshaw development up on the Saguenay, where the Government, through the prices that it paid for aluminum, has in effect provided the money necessary for the development of that power, which is probably the cheapest power on the American Continent.

It is because of that situation, because in facing the possibility of competition you face an industry where a great part of its capital has already been absorbed out of prices paid by consumers, that there is a good deal of question as to whether or not it is feasible to establish even the appearance of a competitive situation.

In that connection, if it should prove to be not feasible to establish a truly competitive situation, possible consideration might be given to considering the aluminum industry in the same category as is the power industry itself, and as a monopoly, as a natural monopoly, and providing for some kind of price regulation similar to the regulation that is provided for the rates of various utility services.

That is all I have, Mr. Chairman, unless there are some questions.

Senator O'MAHONEY. Are there any questions? Mr. Symington?

Mr. SYMINGTON. No, sir.

Senator O'MAHONEY. I thought you looked as though you wanted to ask a question.

Mr. SYMINGTON. No, sir.

Senator O'MAHONEY. I notice, Mr. Olds, you have used the word "subsidy," a word which has been bandied about in these hearings from the beginning, to designate any indication of an attitude upon the part of Government that would create incentives for the entry of free enterprise in the form of competition into this field.

Do you recognize any difference between the payment of a subsidy by Government, and the making of a contract by Government to promote the utilization of a plant owned by the people which otherwise might have to be locked up and abandoned or fall into the lap of a controlled and controlling organization?

Mr. OLDS. I didn't mean to imply, in what I said, any criticism of subsidies in the form that you have just suggested, if they are subsidies. I think that the main interest of both private individuals and the Government itself, as representing those private individuals, in our economic system, is to get the maximum consumption in order to provide the basis for the maximum use of our resources, both in terms of the natural resources and in terms of our manpower. I think that there are a great many arbitrary elements in terms of the fixing of any prices or the determination of any costs; and I think that the Federal Government, without getting into a field which might be considered objectionable in terms of subsidy, can arrange those conditions, can set up such conditions for the use of properties in which it has invested money, as will promote ultimate prices—and competition seems the surest way to get those prices—ultimate prices which will encourage the maximum use of its resources.

Senator O'MAHONEY. My own feeling, let me say, is that I don't like subsidies. I feel that the sooner the Government can get out of the policy of paying cash subsidies—a policy which was adopted during the war for the purpose of keeping prices down so that the cost of living would not rise out of all proportion—the better it will be for all concerned, and it is the only way of reestablishing a free, competitive economy.

On the other hand, it seems to me we are faced with the very realistic problem of determining what shall be done with the tremendous plant facilities constructed by the Government for the war, and, personally, I am inclined to believe that a liberal contract with a free agent, which will give such a free agent an incentive to enter the field of production, a field which is so necessary if we are ever going to pay off the debt, cannot be properly characterized as a subsidy.

THROUGH MONOPOLY, ALCOA ALREADY "LARGELY SUBSIDIZED"; BASIS FOR INCENTIVES IN INTEREST OF COMPETITION "SOUND," SAYS WITNESS

Mr. OLDS. The two things I was trying to point out that have a bearing on what you say are, first, that the Government can, without even the slightest accusation of subsidy, make available, as far as the power costs of aluminum are concerned, large blocks of energy at very slightly over a mill, a kilowatt-hour; secondly, that you are dealing with a situation in which Government plants are going to be operated in competition with an industry which has been, through monopoly, largely subsidized already; and therefore I think that

your point of view is absolutely sound so far as providing the incentives and the basis for that type of competition.

Mr. HICKMAN. May I ask a question?

Senator O'MAHONEY. Yes, indeed.

Mr. HICKMAN. Mr. Olds, I would like to ask you this: It is a fact, is it not, that this restrictive covenant at Niagara Falls has been canceled for 25 years?

Mr. OLDS. Yes, sir. It was canceled, at least, in a curious document that apparently was either lost or handled in such a way that when a statement was prepared for the security issue—the statement that was required by the Securities and Exchange Commission—the bankers insisted that reference to that restrictive covenant go into the statement which was issued, on the basis of which investors invested in the Niagara Falls Power Co.

Mr. HICKMAN. Mr. Olds, you know it to be a fact, do you not, that this issue was litigated in the antitrust case, and both the district court and the circuit court of appeals found that old contract to have been canceled in 1921?

Mr. OLDS. Yes. I might point out also that it was canceled after it was no longer necessary, so far as maintaining that situation at Niagara Falls was concerned.

Mr. HICKMAN. At all events, it has been out since 1921?

Mr. OLDS. It has, in terms of the records as they stand.

Mr. HICKMAN. Do you not also remember that the circuit court of appeals decided that there was nothing to this argument that reinvested earnings were to be treated on any different basis than capital originally contributed?

Mr. OLDS. In terms of a monopolistic situation, I differ from the circuit court of appeals.

Mr. HICKMAN. If that may be noted as a dissent from the circuit court of appeals, it will be all right.

Senator O'MAHONEY. Well, it is still a free country, Mr. Hickman. [Laughter.] It is one of the blessings of this country that you can talk back to the courts, as well as to Senators.

Mr. HICKMAN. Thank you.

Senator O'MAHONEY. Does that finish your statement?

Mr. OLDS. Yes, sir.

Senator O'MAHONEY. Are there any other questions?

Mr. TROY. Does that apply to Boulder Dam, so far as the rearrangement of rates? There is a pecular arrangement at Boulder Dam, I understand.

Mr. OLDS. I don't know what would have to be done. There have been a lot of amendments to the Boulder Dam Act. I am simply pointing to the fact that whether at Boulder Dam or at Bridge Canyon, which is going to be developed right above Boulder and which will make power available at approximately the same cost, there is the opportunity to get "at site" power for pretty close to a mill—from a mill to a mill and a half—in the Colorado Basin.

Senator O'MAHONEY. Thank you very much, Mr. Olds.

Mr. OLDS. Thank you, Senator.

(By direction of the chairman, the following letter and report, submitted by Mr. Olds subsequent to his testimony before the committee, is inserted at this place in the record:)

FEDERAL POWER COMMISSION,
Washington, November 21, 1945.

Hon. JOSEPH C. O'MAHONEY,
Chairman, Surplus Property Subcommittee, Committee on Military Affairs, United States Senate, Washington, D. C.

MY DEAR SENATOR O'MAHONEY: We are submitting herewith the preliminary report on the possibility of obtaining electric power for aluminum plants now owned by the Government on a basis competitive with the cost of power to the Aluminum Co. of America, with special reference to that obtained from its own generating plants, including the plant of the Canadian Aluminum Co.

This report embodies certain tentative conclusions which will be further tested through more exhaustive investigation prior to our final report on the matter. In this connection, we would point out that the attempt to arrive at precise conclusions as to the postwar power costs of the Aluminum Co. is rendered difficult by the lack of detailed public information as to the company's operations in the past.

Sincerely yours,

LELAND OLDS, *Acting Chairman.*

FEDERAL POWER COMMISSION, PRELIMINARY REPORT ON POSSIBILITY OF COMPETITIVE POWER COSTS FOR GOVERNMENT-OWNED ALUMINUM PLANTS

In response to the request of October 18, 1945, from Chairman Joseph C. O'Mahoney, of the Surplus Property Subcommittee, Senate Military Affairs Committee, the Federal Power Commission has made a preliminary examination of available data on the cost of power for aluminum production, with special reference to the possibility of assuring Government-built plants power costs competitive with those of the Aluminum Co. of America (Alcoa). The conclusions, hereinafter set forth, should be recognized as tentative and subject to reappraisal on the basis of our continuing investigation.

Before turning to detailed answers to the specific questions set forth in Senator O'Mahoney's request, it appears desirable to summarize briefly certain aspects of the power-cost situation which should be considered in any attempt to appraise the competitive situation. This is done as follows:

(1) The data at present before your committee indicate 2 mills as the estimated average cost of power to the Aluminum Co. of America in the postwar period.

(2) This average is based on an average of 1.28 mills per kilowatt-hour for power generated in Alcoa's own generating plants—capable of supplying sufficient power to produce about 300 million pounds of aluminum—and of 2.45 mills per kilowatt-hour for purchased power to meet the balance of its requirements.

(3) The 1.28 mills average for self-generated Alcoa power supply represents costs without interest or any direct return on power-plant investment but with plant depreciation figured on an average of about 3-percent straight line basis.

(4) A preliminary check indicates that this figure is reasonably close to Alcoa's out-of-pocket costs for self-generated power, except that the depreciation charge should be figured at not more than 2 percent.

(5) The 1.28-mill figure, with its lack of allowance for interest, however, is based on the assumption that costs to an integrated production combination include only out-of-pocket costs and that, if no debt is the direct responsibility of one element in the combination, say, power, the enterprise will take care of the return on capital invested in power through the profit factor in the price charged for the finished product, say, pig aluminum.

(6) If, therefore, it is assumed that a return of 5 percent is required to entice capital into the over-all business, and return is figured at 5 percent on the net investment of Alcoa in power facilities, then the cost of power from Alcoa's own generating plants should be based on 8 percent (5 percent return, 2 percent depreciation, and 1 percent taxes and insurance) on the investment in power, in addition to direct operation and maintenance expense.

(7) On this basis the average cost of power to Alcoa from its own generating plants may be tentatively estimated at just under 2 mills per kilowatt-hour.

(8) So figured, the power costs for aluminum plants located in the Pacific Northwest and probably in Arkansas can be worked out, without amendment to laws or other modifications of the rate policy, on a basis competitive with the Aluminum Co.'s production in plants supplied from its own generating capacity in the United States.

Whether, in dealing with the problem of competition with Alcoa's output based on its own generation, the 1.28-mill- or the 2-mill-per-kilowatt-hour figure should be used, depends on the answer to the question whether or not Alcoa may disregard return on a portion of the book investment in its integrated production system, which includes bauxite mines, alumina plants, power plants, pot lines, rolling mils, extension plants, etc. It is certain that, with the greater portion of its present plant representing reinvested earnings, Alcoa is in a strong financial position which may permit it to disregard the portion of its capital investment chargeable to generation of power.

But, if it is assumed that Alcoa will require a return on all of its book investment, in general equivalent to the return which competitors will require on their investment in the plants which they operate with purchased power, then it would seem that the power costs of Government-financed aluminum plants in the Northwest and in Arkansas may be considered as competitive with those of Alcoa.

In other words, this preliminary survey indicates that, in the cases of four of the nine aluminum plants built by the Government, a competitive situation from the power-cost standpoint may be readily developed, a situation competitive even with Alcoa's production using self-generated power.

In this connection it may be noted that, in the report of the Surplus Property Administrator, Alcoa costs of production, including production of alumina and other raw materials, as well as power, are apparently based on out-of-pocket costs and depreciation expense without provision for return on capital invested in the several processes. The assumption throughout is that return on capital will be taken care of through the profit element in the price of the final product. Similarly, the lower postwar cost estimates for the several Government-owned plants, exclusive of purchased power, appear to be based on the same assumption, i. e., that alumina, etc., will be available on an out-of-pocket cost basis without return calculated on the capital invested in the respective processes.

The question may well be raised whether, if Alcoa's costs for the constituent steps in production of pig aluminum are claculated on the basis solely of out-of-pocket costs and depreciation, while potential competitors' costs are calculated on the basis of power costs which include return on capital, Alcoa's end price for purposes of determining the competitive situation will not have to be high enough to include some return on the net investment in the processes in which only out-of-pocket costs were assumed.

In the long run, there must be enough profit at some point in the business of any competing enterprise to attract capital which has always other opportunities for investment.

There is another phase of the problem of making possible postwar competition with Alcoa by operators of aluminum plants built by the Government to meet the requirements of the war. Actually, even assuming Alcoa's power costs at only 1.28 mills for production, based on self-generated power, it must be recognized that such power will sustain only about 40 percent of its estimated postwar production capacity. This means that 60 percent of such capacity will depend on purchased power and will consequently be strictly competitive with production from Government-built plants also dependent upon purchased power.

With estimates of the country's postwar production requirements running as high as 1,800,000,000 pounds of aluminum, this means that postwar prices for pig aluminum should be based on costs including the reasonable cost of purchased power rather than on those reflecting Alcoa's self-generated power costs. A combination of Government-generated prime and high-grade secondary power will, therefore, insofar as power costs are an element in the situation, assure a competitive situation with the resulting maintenance of reasonable prices for aluminum. Alcoa's production of from 15 to 20 percent of the country's expanded postwar requirements by means of self-generated power should have little if any effect on the competitive power costs situation, even if only out-of-pocket costs including depreciation are assumed.

These observations, however, do not apply to competition with the Canadian Aluminum Co.'s production in world markets. In view of the remarkably low-cost power potentialities of the Saguenay development, and the virtual subsidies

provided by the interested governments in connection with the Shipshaw project, we can suggest no possibility of competitive power costs in this country except through equivalent subsidies.

We will now proceed with tentative answers to the specific questions of the subcommittee.

Question I.—What have been and are the comparative costs of power for aluminum production at each reduction plant, in this country and Canada, considering both Government-owned plants and private plants?

There is attached table I, showing the comparative power and total production costs for each aluminum plant in this country and in Canada. The data in this table are taken from the report of the Surplus Property Board to the Congress, dated September 21, 1945, but have been carefully reviewed, insofar as power costs are concerned, to determine their accuracy.

The main question raised by this review concerns the question, previously discussed, as to whether the costs of power from Alcoa's own power plants should include return on capital or only out-of-pocket costs and depreciation expense. In table I the estimates include only such out-of-pocket costs and depreciation expense.

An element which enters into certain power costs is the cost of transmission. For the most part such expense represents a relatively small portion of Alcoa's power costs because of the proximity of its aluminum plants to power-generating facilities. On the other hand, power purchased for the most of the Government-built plants is priced at rates which are based among other things on the costs of far-flung transmission systems designed for general regional service.

It appears that the significant cost data shown in the table are those estimated for the postwar period. These costs are discussed below with reference to the individual plants.

PRIVATE PLANTS

Alcoa-owned plants.—Alcoa's aluminum-production capacity amounts to 830 million pounds per year, distributed among five plants. Power for the operation of these five plants was obtained from own-generating sources and also purchased from others. The weighted average cost of power used in these plants in 1943 was about 2.4 mills per kilowatt-hour, or 2.2 cents per pound of aluminum. It has been estimated that postwar power costs in these plants will be approximately 2 mills per kilowatt-hour, or 1.9 cents per pound of aluminum. This is based on Alcoa's generating approximately 40 percent of the total power requirements at 1.28 mills per kilowatt-hour and purchasing approximately 60 percent of its requirements at 2.45 mills per kilowatt-hour.

As already pointed out, these estimated costs do not include any provision for return on net investment in power facilities. With allowance of a return of 5 percent and reduction of the depreciation allowance to 2 percent, it is estimated that the cost of power to Alcoa's plants will average just under 2 mills for self-generated power and about 2.25 mills for all power required for its 830 million pounds of annual aluminum capacity.

Reynolds-owned plants.—The Reynolds Metals Co. has two aluminum reduction plants: At Listerhill, Ala., power supplied by TVA, with an annual capacity of 100 million pounds; and at Longview, Wash., power supplied by the Bonneville Power Administration, with an annual capacity of 62 million pounds. Reynolds' wartime power costs averaged 3.3 mills per kilowatt-hour, or 3 cents per pound of aluminum. Postwar power costs for the Reynolds' plants are estimated at 3 mills per kilowatt-hour, or 2.7 cents per pound of aluminum broken down as follows: 2.1 mills per kilowatt-hour at Longview, and 3.8 mills per kilowatt-hour at Listerhill. As stated hereinafter, the availability of secondary power may reduce the cost at Longview to somewhat less than 2 mills.

Canadian plants.—The wartime power costs of the Canadian aluminum plants amounted to 1.9 cents per pound of aluminum, or about 2.1 mills per kilowatt-hour of electric energy. This cost does not reflect the full benefit of the wartime expansion, especially of the Shipshaw project. Large advance payments by purchasing governments and loans on very favorable terms paid for much of the expansion. Special amortization allowances by the Canadian Government have further reduced the net cost of the new facilities. It is estimated in the Surplus Property Board's report that the Canadian postwar power costs will amount to about only one-fourth of the normal cost, or one-half cent per pound of aluminum (0.56 mill

per kilowatt-hour). This low cost consists of the very small costs for operating and maintaining the facilities and of the depreciation expense associated with 40 percent of the cost of the power project. It is stated that no interest is to be paid on the power facilities after the war.

GOVERNMENT-OWNED PLANTS

Massena, N. Y., operated by Alcoa; power supplied by New York Power & Light Co., Central New York Power Corp., and Consolidated Edison Co. of New York. This plant, having an annual capacity of 108 million pounds of aluminum, experienced wartime power costs of 6.9 cents per pound of aluminum, or 7.75 mills per kilowatt-hour. The availability of low-cost competitive power for this plant during the postwar period is improbable. The only cheap power which may be available in the region would have to come from Canadian sources. At the present time Alcoa has first call on this supply. Should the St. Lawrence power project be completed in the near future, it should offer low-cost power which would probably put this plant in a competitive position with Alcoa purchased-power costs.

Burlington, N. J., operated by Alcoa; power supplied by Public Service Electric & Gas Co. This plant has an annual capacity of 109 million pounds of aluminum. During the war power costs amounted to 5.8 cents per pound, or 6.7 mills per kilowatt-hour. Postwar power available for this plant could not be competitive because it would have to be supplied from steam sources, and during 1944 fuel costs alone were 2.6 mills per kilowatt-hour. It has been estimated that the lowest power costs would approximate 5 cents per pound, or 5.5 mills per kilowatt-hour.

Maspeth, N. Y., operated by Alcoa; power supplied by the Consolidated Edison Co. of New York. This plant has an annual capacity of 297 million pounds of aluminum. Wartime power costs at this plant amounted to 5.7 cents per pound, or 6.6 mills per kilowatt-hour. This plant, like that at Burlington, must be operated with steam-generated power, which it has been estimated would cost about 5 cents per pound of aluminum, thus making competitive postwar operations from a power standpoint improbable.

Riverbank, Calif., operated by Alcoa; power supplied by the city of San Francisco (Hetch-Hetchy project). This plant, having an annual capacity of 110 million pounds of aluminum, had wartime power costs of 4.5 cents per pound, or 4.8 mills per kilowatt-hour. Postwar power costs for this plant have been estimated at about 3.6 cents per pound, or 3.9 mills per kilowatt-hour. This would indicate that a further reduction of about 50 percent would have to ensue before a competitive situation could be created.[1]

Los Angeles, Calif., operated by Alcoa; power supplied by the city of Los Angeles. This plant has an annual capacity of 185 million pounds of aluminum. Wartime power costs amounted to 4.1 cents per pound, 4.5 mills per kilowatt-hour. It has been estimated that postwar costs of this plant would be about 3 cents per pound, or 3.3 mills per kilowatt-hour.

The city of Los Angeles obtains a substantial block of power from Boulder Dam. A very complex situation exists at Boulder Dam with respect to States' rights, allocation of costs, allotments of power, etc., which will have to be revised before permanent competitive power arrangements can be effected for the Los Angeles plant. It is understood that the city of Los Angeles is studying this matter and it is possible that a reduction to about 2½ mills for a period of 5 years may be obtained with rates thereafter of approximately 3 mills. These rates, however, should be confirmed by the city before any definite conclusion is reached thereon.

Jones Mills, Ark., operated by Alcoa; power from three sources. This plant has an annual capacity of 152 million pounds. Wartime power costs amounted to 4.3 cents per pound, or 5 mills per kilowatt-hour. This plant is unique among Government-owned plants in that its power supply is provided from three different sources. The foregoing costs represent the composite of these sources. The plant operated four pot lines, two of which obtained power from generating facilities constructed as part of the plant. The supply for the other two lines was purchased from outside sources; one from a cooperative, which in turn received its requirements from Grand River Dam; and the other from Arkansas Power & Light Co., which obtained its supply from the southwestern power pool. The cost from the various sources ranged from approximately 3.1 mills for energy supplied from the plant's own facilities to 6.5 mills for that purchased from private power companies.

[1] It is reported that difficulties which arose during the period of wartime operation by reason of fumes depositing certain poisonous chemicals on nearby farm lands gave rise to injunction suits by the residents of the area. Operation of the plant may not, therefore, be resumed even if lower power costs are obtainable.

It is believed that two pot lines at this plant could be supplied competitive power through the operation of the generating facilities of the plant at a cost of about 1.9 cents per pound, or 2 mills per kilowatt-hour. Such power costs assume that the investment in the generating facilities will be written off as a war cost, thus leaving the cost of power to be made up of bare operating and maintenance expenses, including fuel (natural gas at 6 cents per M cubic feet). This assumption is consistent with the practices of Alcoa and other industries which have charged off the major portion of their investments during the war period. Further justification for such an assumption rests on the fact that if these facilities are not used for this purpose they will, in all probability, be junked or sold at salvage prices, in which case the major part of the investment would be charged to war costs.

In addition to the generating facilities referred to above, certain work was undertaken and then suspended on a steam generating station near the plant. The possibilities of completing this station and obtaining cheap power therefrom will be studied and reported on in the final report in this matter.

Troutdale, Oreg. (operated by Alcoa), Spokane, Wash. (operated by Alcoa), Tacoma, Wash. (operated by Olin Corp.): These three plants have an annual aluminum-producing capacity of 400 million pounds as follows: Troutdale, 141 million; Spokane, 219 million; and Tacoma, 40 million. All of these plants obtain their power requirements from the Bonneville Power Administration. The wartime power costs of the three plants were approximately the same: 1.9 cents per pound of aluminum, or 2.2 to 2.0 mills per kilowatt-hour, for Spokane and Tacoma; and 2.0 cents per pound of aluminum, or 2.3 mills per kilowatt-hour for Troutdale. The postwar power costs at these plants are estimated at 1.9 cents per pound of aluminum, or an average of 2.1 mills per kilowatt-hour of energy. These costs may be reduced to about 1.75 mills per kilowatt-hour through use of "secondary" power, as discussed in detail in answer to question II.

Question No. II.—Under the existing laws affecting the sale of Federal power to any aluminum plants, what reductions in rates or changes in contract terms are permissible, and what would be the corresponding costs of power for each aluminum plant affected?

Insofar as the rates themselves are concerned, there apparently are no statutory provisions which prescribe their specific level or form in relation to any specific industry. The Bonneville Act, for example, provides as follows (sec. 7) with reference to rate schedules:

"Rate schedules shall be drawn having regard to the recovery * * * of the cost of producing and transmitting such electric energy, including the amortization of the capital investment over a reasonable period of years."

Present power policy provides generally that Federal power projects shall be operated for the benefit of the general public, giving preference to public bodies and cooperatives, and in such a manner as to insure the most widespread use at the lowest reasonable rates. The rates now in effect at existing Federal power projects may be considered in general as having been designed to meet these objectives.

It appears that a reduction in the cost of power used by aluminum plants in the Pacific Northwest may be effected through the combined use of "firm" and "secondary" power. (Firm power is defined as "power available at all times" and secondary power, in this instance, is defined as "power which is available only a percentage of the time.")

It has been estimated that about 2½ billion kilowatt-hours of secondary energy will be available on the average annually from Grand Coulee and Bonneville projects. Of this amount 1 billion kilowatt-hours (equivalent to about 100 million pounds of aluminum annually) might be available for the production of aluminum at a rate of about 1 mill per kilowatt-hour. The annual capacity of the three Government-owned aluminum plants in the Grand Coulee-Bonneville territory is 400 million pounds, requiring approximately 4 billion kilowatt-hours of energy. The present average rate of about 2 mills per kilowatt-hour for firm energy would result in an annual power bill of about $8,000,000 for the

4 billion kilowatt-hours. The introduction of 1 billion kilowatt-hours of secondary power would reduce this bill by $1,000,000 to $7,000,000 per year, or an average of 1.75 mills per kilowatt-hour.

It would appear, therefore, that power costs in the Pacific Northwest are definitely competitive with the average cost of Alcoa of its own-generated and purchased energy. However, if return on capital is omitted, the power costs in Alcoa's own generating plants, which can generate sufficient energy to produce 300 million pounds of aluminum per year, are estimated at 1.28 mills per kilowatt-hour, substantially lower than the lowest costs estimated for power delivered from Federal power projects. On the other hand, power other than own-generated is estimated to cost Alcoa an average of 2.45 mills per kilowatt-hour, which is somewhat higher than the estimated power costs to Government plants.

It appears, therefore, that while Alcoa may have a definite competitive advantage insofar as the market for 300 million pounds of aluminum production is concerned, the Government plants in the Pacific Northwest are obviously in a favorable competitive position for the market in excess of 300 million pounds of aluminum per year. In 1940 total aluminum sales in the United States amounted to about 447 million pounds of aluminum of which Alcoa sold some 413 million, or 92 percent.

There has been considerable discussion recently of the contract provisions for the sale of electric power from Federal power projects, especially with reference to the length of the contract term and the payment for a fixed amount of power. Changes in these provisions can be made without special legislation.

Question No. III.—What changes in existing laws might be desirable that would bring the cost to the consumer of Federal power at the various projects down to a level competitive with (a) the Alcoa-generated power and (b) the Canadian power (Shipshaw)? What policy questions would be raised by such proposed changes?

Since it does not appear possible without subsidies for the Federal power projects to approach the low cost of power estimated for Shipshaw, attention will be directed to part (*a*) of this question.

As indicated in the previous discussion, it is our tentative conclusion that no changes in the law will be required to enable operators of the Government-built aluminum plants in the Northwest and in Arkansas to obtain power at rates which will be competitive with the power costs to Alcoa's plants. We have further indicated that, with the exception of the Massena plant when St. Lawrence power is developed, there is no possibility of providing Government-built plants in the East with power at rates competitive with Alcoa's costs.

This leaves for consideration the plant located at Los Angeles and served by the Los Angeles Department of Water and Power. The department's supply of power is dependent to a considerable extent on power from the Federal Boulder Dam project. The department has indicated, as noted above, that for a period it can supply power for the aluminum plant at 2½ mills, with permanent supply on a 3 mill per kilowatt-hour basis.

It should be pointed out, however, that power from Boulder Dam today carries higher proportional fixed charges, based on statutory allocations and interest rate, than other federally financed hydroelectric projects. If consideration should be given to amendment of the Boulder Dam Act, to place it more on a par economically with such other projects, the Los Angeles municipal system should be able to reduce the rates offered the local aluminum plant to a more nearly competitive level.

Respectfully submitted,

LELAND OLDS, *Acting Chairman.*

NOVEMBER 20, 1945.

TABLE I.—*Aluminum production costs—Representative wartime costs and estimated postwar costs*

[Data from report on the Surplus Property Board to the Congress on aluminum plants and facilities; from Bonneville Power Administration report on power costs, aluminum reduction plants; and from the report of the Attorney General on the aluminum industry]

Plants	Annual capacity	Production costs				
		War period		Postwar period		
		Total operating cost	Power cost	Total operating cost	Power cost	Power cost
	Millions pounds	*Cents per pound*	*Cents per pound*	*Cents per pound*	*Cents per pound*	*Mills per kilowatt-hour*
United States owned plants:						
Massena, N. Y.[1 2]	108	16.2	6.9	8.3–9.3	1.6–1.9	1.75–2.1
Burlington, N. J.[2]	109	16.7	5.8	14.0	5.0	5.5
Maspeth, N. Y.[2]	297	15.9	5.7	13.2	5.0	5.5
Riverbank, Calif.[2]	110	14.7	4.5	11.4–11.9	3.6	3.9
Los Angeles, Calif.[2]	185	13.9	4.1	10.2–10.8	3.0	3.3
Jones Mills, Ark.[2 3]	152	13.1	4.3	8.2–9.7	1.9–3.2	2.1–3.6
Troutdale, Oreg.[2]	141	11.6	2.0	8.5–9.3	1.9	2.1
Spokane, Wash.[2]	219	11.4	1.9	8.8–9.3	1.9	2.1
Tacoma, Wash.[4]	40	15.4	1.9	10.0–10.5	1.9	2.1
Alcoa-owned plants: [5]						
Vancouver, Wash	172	[6]	1.9	8.0–9.6	1.9	2.1
Massena, N. Y	164	[6]	2.1	8.2–9.4	1.6	1.8
Niagara Falls, N. Y	42	[6]	1.4	8.0–9.1	1.4	1.6
Alcoa, Tenn	341	[6]	2.3	8.1–9.3	2.1	2.3
Badin, N. C.[7]	111	[6]	2.6	7.6–9.3	1.4–2.0	1.6–2.2
					1.9	[8] 2.1
Reynolds Metals Co. plants:						
Listerhill, Ala	100	[9]	3.8	[9]	3.2	3.6
Longview, Wash	62	[9]	1.8	[9]	1.9	2.1
Canadian plants	[10] 672	13.1	1.9	6.7	.5	.56

[1] For postwar period, 1.75 mills per kilowatt-hour only if St. Lawrence project power is available, or 2.1 mills per kilowatt-hour for Canadian imports.
[2] Operated by Alcoa.
[3] For postwar period, lower cost is for operating and maintenance costs of engine-driven electric generators; higher costs assume completion of steam-electric plant and includes depreciation on that plant but excludes depreciation on engine-driven units which is included in total allowance for depreciation.
[4] Operated by Olin Corp.
[5] Power costs shown for Alcoa-owned plants do not include interest costs related to its own or subsidiary-owned electric-generating plants.
[6] These costs are not available.
[7] Postwar power costs depend on the proportion of own-generation to total energy used in the plant. Estimated weighted average is 1.94 mills per kilowatt-hour, or 1.75 cents per pound.
[8] This cost of power for Alcoa's aluminum plants is the weighted average of own generating costs—1.28 mills per kilowatt hour and purchased power costs—2.45 mills per kilowatt-hour.
[9] Not available.
[10] Production in 1942.

Senator O'MAHONEY. Mr. Symington, yesterday afternoon, after you had left the hearing room, Senator Revercomb suggested that he would like to have the record show a response from you, or from your counsel, on the question as to the legal authority of the Surplus Property Administrator to dispose of plants within the category of section 19, after the expiration of the 30-day period. That was the reason that you were requested to be here this morning. I recognize the fact that you have another committee hearing this afternoon, and probably would like to depart as soon as possible.

Senator Revercomb, before he left this morning, indicated to me that Senator McClellan had the same question in mind, and I will now ask Senator McClellan to pose the inquiry.

Senator McClellan. Mr. Chairman, I think I asked the question yesterday, myself, and after I asked the question Senator Revercomb wanted Mr. Symington to answer it.

Senator O'MAHONEY. That is right.

Senator McCLELLAN. I asked the question of Mr. Husbands, and would have been glad, of course, to have asked Mr. Symington had he been present, because I am very anxious, Mr. Symington, to clear up this one issue.

Mr. SYMINGTON. Yes, sir.

ADDITIONAL STATEMENT OF W. STUART SYMINGTON, SURPLUS PROPERTY ADMINISTRATOR, ACCOMPANIED BY H. B. COX, GENERAL COUNSEL, SURPLUS PROPERTY ADMINISTRATION

Senator McCLELLAN. Under this subsection (c) of section 19 of the Surplus Property Act, I read:

> With respect to the property listed in classes 1 to 8, inclusive, no disposition shall be made or authorized until 30 days after such report (or additional report) has been made while Congress is in session, except that the Board may authorize any disposal agency to lease any such property for a term of not more than 5 years.

What I want to ascertain from you is your interpretation with respect to this provision of the existing statute, in view of developments with respect to these cancellations, and your efforts to dispose of these plants. Having filed your report, the 30 days will expire on the 21st of this month. Now, if the Congress takes no affirmative action on this report, would you regard its failure to take such affirmative action as an acquiescence in the policies announced in the report, and would you feel free then to accept a proposition such as that of the Reynolds Metals Co. and enter into contracts for the disposal or lease of the property accordingly, if the Congress takes no action within this 30 days time?

Mr. SYMINGTON. Senator, it seems that I might divide that into two answers. One would be the legal answer, whether we had the right to enter into any subsidy—that word has been kicked about a bit——

Senator McCLELLAN (interposing). I want you to answer it as to that, and then I also want you to answer it specifically as to the Reynolds proposal.

Mr. SYMINGTON. Well, could Mr. Cox first answer it from the legal end?

Senator McCLELLAN. Yes. I just wanted to get the record straight.

MR. COX REPLIES TO QUESTIONS AS TO AUTHORITY OF SPA TO DISPOSE OF PLANTS THROUGH SALE AND LEASE

Mr. Cox. Senator, I think the answer, so far as our legal authority is concerned, is this, that even before the report was filed we had the legal authority to authorize a lease for 5 years. After the report is filed, I think in the absence of specific action by Congress we have the legal authority to dispose, to make any arrangement for the disposition of the plant which falls within the limits of our legal authority under the statute.

Specifically as to the Reynolds offer, I understand the situation is this, that Mr. Goodloe testified yesterday that as to the risk-sharing aspect of the Reynolds offer, he thought the RFC had the legal authority under its statute to consummate that transaction. I think in that respect I at least would be guided by Mr. Goodloe's opinion as to the scope of his own powers, and that as far as that branch of the

question is concerned I would be prepared to say that the Board then had the authority to authorize that part of the Reynolds offer.

The part of the Reynolds offer that I have doubts about, and I understand Mr. Goodloe has doubts about our legal authority to make, is that part of the offer which requires the Government to buy the ingot. I think we have no authority under our statute to do that. I understand, subject to Mr. Goodloe's correction, that he believes he has no authority under this statute to buy ingot, although he does believe he has authority to approve or to make a transaction for the sharing of the risk.

(A letter by Mr. Goodloe, dealing with this phase of the subject, appears on p. 93 of this record.)

So I think, to summarize my answer, it would be this, as it applies to the Reynolds offer—that we, in the absence of action by Congress, would be authorized to make a transaction of that kind, with the possible and with the probable exception that we would not be able to approve or adopt that part of the transaction which requires the Government to buy the ingot.

Does that answer your question, sir, from a legal angle?

Senator McCLELLAN. Substantially, with this one exception: What I am trying to ascertain primarily is whether, if Congress takes no action on this report, then the policies that you have reported and propose to pursue become the adopted, legalized, and authorized policies to guide your agency?

Mr. Cox. We have the authority to do that. Whether we would is another question that Mr. Symington can answer.

Senator McCLELLAN. I mean that that is the legal effect of it.

Mr. Cox. Yes; that is correct.

Senator McCLELLAN. That you are then given the authority to pursue; in other words, the policies you have reported and propose to pursue, if there is no action by Congress, become the binding policies and have the effect of law as to the course you are authorized to pursue in the disposal of the property?

Mr. Cox. That is correct, sir, with this qualification: the failure of Congress to act, of course, does not expand the powers that we are given by statute.

Senator McCLELLAN. I understand that. It would not enlarge upon your powers.

Mr. Cox. In other words, if we have no authority to buy the ingot, the failure of Congress to act on this report would not give us that authority.

Senator McCLELLAN. But it would make conclusive and binding the authority to share losses and to, in effect, subsidize the operation?

Mr. Cox. That is correct. At least we would have the legal authority to proceed on that basis, taking Mr. Goodloe's answer of yesterday that he has that authority.

Senator McCLELLAN. He said, as I understood him, that he would have to come back to you to determine whether you had the authority.

Mr. Cox. No; I don't believe he said that.

Senator McCLELLAN. If I am not mistaken, that is what he said.

Mr. Cox. I understood that they would come back to us for approval of the transaction, and not on legal grounds but on policy grounds.

But Mr. Goodloe's opinion is that under the RFC statute they have the authority to make that kind of a contract.

Senator McClellan. In other words, your answer is simply this: Yes, you would have the authority, and it would become the fixed policy of Congress and of your administration, and that you could enter into the contract proposed, or accept the proposal of the Reynolds Metals Co., subject to one doubt that you now entertain, and that is as to whether you have the authority to obligate the Government to buy the ingot.

Mr. Cox. Yes, sir. That is not a doubt in my mind. I am quite clear that at least the Surplus Property Board does not have authority.

Senator McClellan. That you do not, but the question is whether the RFC has?

Mr. Cox. Yes.

REYNOLDS AND COLUMBIA METALS PROPOSITIONS ACCEPTABLE, BARRING PURCHASE OF INGOT, IN OPINION OF GENERAL COUNSEL

Senator O'Mahoney. Mr. Cox, is it not true that except for the opinion which you have that there is no authority under the Surplus Property Act to purchase ingot, there is complete authority to lease any of these plants; so that the Reynolds offer, if it did not involve the purchase of ingot, being a lease would be within the authority of the Surplus Property Act without report to Congress?

Mr. Cox. That is correct, sir.

Senator O'Mahoney So that any lease was specifically exempted from the effect of section 19, and paragraph (c) of section 19, from which Senator McClellan read, has the effect only of saying that you have no authority to sell a plant until after 30 days have expired?

Mr. Cox. That is correct; and I so stated in the opening part of my statement.

Senator McClellan. Let me clarify it a little further. You maintain that now, under the Surplus Property Act, irrespective of your report, you have the authority to accept the Reynolds proposal and enter into a lease upon the terms stated in his proposal, obligating the Government to bear losses for a period of 5 years—I don't mean that you would bear losses for 5 years, but you bear all of them for the first year—but do you have that authority now, according to your interpretation of the Surplus Property Disposal Act, to enter into that contract, just accept the proposal, irrespective of waiting this 30 days for Congress to act?

Mr. Cox. It is my opinion that we have the authority to make a lease for 5 years; and that, accepting, as I do, Mr. Goodloe's opinion as to the scope of his legal powers, we could accept the Reynolds proposition for 5 years, barring the purchase of the ingot.

Senator McClellan. In other words, you could accept his proposition obligating the Government to assume all losses for the first year, and 85 percent of the losses thereafter, for a period of 5 years?

Mr. Cox. Whatever the Reynolds offer is.

Senator McClellan. You recall that?

Mr. Cox. I was not here yesterday afternoon when it was discussed in detail, but I understand that that is their offer.

Senator McClellan. That is correct; and your interpretation of the act is that you have that authority now, irrespective of the report and the action that Congress may take on it?

Mr. Cox. Barring the purchase of the ingot.

Senator McClellan. I understand that.

Mr. Borchardt. In case Reynolds and Columbia Metals should insist that the purchase of ingot is an indispensable part of their offer, and since you say you do not have the power to accept that kind of a proposition, does the Government then have before it any kind of an offer for any aluminum plants?

Mr. Cox. Well, the only offers that I know of are the Reynolds offer, Columbia Metals offer, and the offer—if it can so be described—as made in the letter of July 24 by Alcoa.

ALCOA'S POSITION, IN CASE ALL OTHER OFFERS ARE UNACCEPTABLE, EXPLAINED

Mr. Borchardt. That would mean if you would have, for legal reasons, to turn down the Reynolds offer and the Columbia Metals offer, that would leave you only with Alcoa?

Mr. Cox. That is correct, with my understanding of the offers.

Mr. Borchardt. Would you, under the decision of the court, be authorized to sell any of the plants to Alcoa?

Mr. Cox. I beg your pardon?

Mr. Borchardt. Would you be authorized, under the decision of the court and under the letter of the Attorney General, to lease or sell any of the plants to Alcoa?

Mr. Cox. The letter of the Attorney General, which is now in the record, I construe as a direction to us that we cannot sell any of the key alumina or aluminum plants to Alcoa unless that disposition is accompanied by some corresponding divestiture of properties that they now own.

Mr. Borchardt. Would not, then, the Congress be confronted with the following situation: that if Reynolds and Columbia Metals insist on the ingot purchase provision, Congress would then have to authorize such purchase or would have to legalize a monopoly to enable you to sell to Alcoa? And failing to do either one, the plants would have to be shut down, is that correct?

Mr. Cox. I think that is correct.

I think, sir, if I may amplify my answer to that a little, that what the Surplus Property Administration would have to do in those circumstances would be to report to the Attorney General that we were unable to sell the plants, and permit him then to take such action in the litigation as he saw fit.

Mr. Borchardt. In other words, under present circumstances the Congress would have to take action either way in order to permit a disposal to Columbia Metals or Reynolds on the one hand, or to Alcoa on the other hand, so that you absolutely depend upon action on the part of Congress now before you can proceed any further, unless Reynolds and Columbia modify their offer to the extent of leaving out the ingot purchase provision?

Mr. Cox. That is correct, from my understanding.

Senator McCLELLAN. To clarify one thing, you made reference to the offer you have from Alcoa. Do you have an offer from Alcoa?

Mr. COX. I don't know whether you can describe it as an offer or not, but I am referring to that letter which was read into the record yesterday.

Senator McCLELLAN. Just a general letter that they were willing to negotiate?

Mr. COX. The letter will speak for itself. I think it contains some references to and proposals about specific plants.

Senator McCLELLAN. May I ask one further question. Will you point out the provision in the Surplus Property Act that you contend gives you that authority now, or do you just refer to the general provisions of the act all the way through?

Mr. COX. You mean the authority to make a lease for 5 years?

Senator McCLELLAN. No, but whereby you could make a lease binding the Government to absorb losses. Is there any specific provision in the act authorizing you to do that, in making a lease?

Mr. COX. Senator, I regret that I appear not to have made myself clear on that point. I testified the day before yesterday—and I do not change or qualify that testimony in any way—that there is nothing in the Surplus Property Act itself that authorizes a lease of that kind. There is a provision in the Surplus Property Act which leaves unimpaired and saves the disposal powers and other powers of the other Government agencies that dispose of property. Mr. Goodloe testified yesterday that he found in the statutes that set up and control the RFC, authority to make a lease of that kind; and it is from those statutes that the authority comes.

Senator McCLELLAN. It is not in the Surplus Property Act, that specific authority?

Mr. COX. That is correct, except that the Surplus Property Act does not impair the authority, and expressly so provides, that is given by the RFC statute.

Mr. BORCHARDT. Could you express it this way: That the Surplus Property Act permits the utilization of power granted to other agencies for the purposes of achieving the purposes of the act?

Mr. COX. I am indebted to you for that description. I think that is right.

Senator McCLELLAN. I only wanted to clarify the record that the authority is not specifically in the Surplus Property Act, and what I am trying to determine is what is the effect of having to wait 30 days? Does it apply only to sales?

Mr. COX. It does.

Senator McCLELLAN. And not to leases?

Mr. COX. That is right.

Senator McCLELLAN. Within a term of 5 years?

Mr. COX. That is my understanding.

CLARIFYING SPA AUTHORITY UNDER VARIOUS STATUTES

Senator McCLELLAN. I just wanted to clear up the legal aspect of this whole procedure, just what we are driving at.

Mr. COX. I think, as Mr. Borchardt says, that this act makes it clear that we are entitled to and should use the powers given by other statutes, and that the power to make this lease comes from the other statutes; and I would prefer to have that statute discussed by Mr. Goodloe.

Senator McCLELLAN. It appears to me, then, that Mr. Husbands or Mr. Goodloe should be able to answer definitely with respect to that; whereas, yesterday they referred me back to Mr. Symington.

Senator O'MAHONEY. Perhaps this question may be clarified a little more by a specific reference to section 19, to the body of section 19. In paragraph (a) it will be observed that there are 12 categories of surplus property, each separately numbered. The law says:

> The Board, in cooperation with the various disposal agencies, shall prepare and submit to the Congress within 3 months after enactment of this act a report as to each of the following classes of surplus property (not including any plant which cost the Government less than $5,000,000)—

then there are listed (1) aluminum plants. (2) magnesium plants; (3) synthetic rubber plants; (4) chemical plants; (5) aviation gasoline plants; (6) iron and steel plants; (7) pipe lines; (8) patents; (9) aircraft plants; (10) shipyards; (11) transportation facilities; and (12) radio and electrical equipment.

Then the section proceeds to say what the report shall contain.

Then when we come to subparagraph (c) we find that the requirement for the report is specifically limited to only some of these categories, because paragraph (c) begins:

> Whenever the Board may deem it to be in the interest of the objectives of this act it may authorize the disposition of any surplus property listed in classes 9 to 12, inclusive, of subsection (a) of this section.

This is a specific declaration of authority to the Surplus Property Administration to authorize the disposition of any surplus property listed in classes 9 to 12. That seems to be an authority without limit.

Then the next sentence is the one we have been discussing:

> With respect to the property listed in classes 1 to 8, inclusive, no disposition shall be made or authorized until 30 days after such report (or additional report) has been made while Congress is in session, except that the Board may authorize any disposal agency to lease any such property for a term of not more than 5 years.

It seems to me to be clear—and this, I am sure, was the understanding of the committee out of which the bill came—that the Board was given the broadest kind of authority to dispose of certain categories of property, namely, aircraft plants, shipyards, transportation facilities, and radio and electrical equipment, regardless of how long the report was before Congress.

With respect to all property, the Board has the authority to grant leases for not more than 5 years. But as to sales, it is limited, with respect to categories 1 to 8, to make no sale until 30 days have expired.

Senator McCLELLAN. Mr. Chairman, is Mr. Goodloe present? I would like to pursue this now and ask him——

Senator O'MAHONEY. I don't think he is present.

Mr. BORCHARDT. I think, Senator McClellan, that yesterday Mr. Goodloe stated that he believed the RFC Act did give the disposal agency the authority——

Senator McCLELLAN (interposing). He probably did state it, but I thought if I could follow it through here we could completely cover it.

Mr. Cox. Without engaging in responsive readings, I wonder, Senator, if it might not be well for me to read into the record those provisions of section 34 (a) that have to do with the effect of other statutes authorizing disposal.

Senator O'Mahoney. I think it would be well, so that as far as possible we can get this legal authority cleared up.

Mr. Cox. Section 34 (a) provides, in part, as follows:

> The authority conferred by this Act is in addition to any authority conferred by any other law * * *.

The rest of that sentence is not relevant, but the next sentence reads as follows:

> This act shall not impair or affect any authority for the disposition of property under any other law, except that the Board may prescribe regulations to govern any disposition of surplus property under any such authority to the same extent as if the disposition were made under this Act, whenever it deems such action necessary to effectuate the objectives and policies of this Act.

Mr. Borchardt. Mr. Chairman, would it be proper to request Mr. Symington to notify your subcommittee in case a stalemate develops which would prevent him from accepting any offer on the part of Reynolds or Columbia (in view of the ingot provision, which to accept he has no power) and in case he finds he cannot sell to Alcoa, to let this committee know what the situation is and what action on the part of Congress might be required in order to avoid a continuance of that stalemate?

Senator O'Mahoney. I think that would be helpful; but I think the record ought to show that Mr. Symington, and the Surplus Property Board before him, have shown every disposition to disclose to Congress every step in this very complicated and difficult task of surplus property disposal. I would not want any implication to arise from the request that there was any lack of complete cooperation between the committee and the Surplus Property Administration.

Mr. Borchardt. I didn't mean to give that implication.

Senator O'Mahoney. I know you didn't. I wanted to avoid the possibility of that implication.

Senator McClellan. I don't see how he could do otherwise when he gets where he can't go further.

VEXING QUESTIONS ARISE, INCLUDING SUBSIDIES

Mr. Symington. Mr. Chairman, I am very glad, if I may, to add a few remarks to Mr. Cox's legal thought on this heavy administrative problem. I am very glad that the legal aspect became to me, just a layman, so involved, because it shows the problem. As I see it, the job of the Surplus Property Administrator is in effect trustee for the people, of the property that was used, or expected to be used, rather, for the war effort. Among the assets of the people we find $700,000,000 in aluminum plants.

Last night I understood that Senator Revercomb would like to find out whether, at this stage of the game, we would want to go ahead unless Congress took a position with respect to subsidies.

I asked our lawyers, as you do in business, what the legal aspect was before we could make, you might say, an administrative decision. I am still not quite clear, and I might say that this discussion has not yet clarified just what is the legal position.

Now that was only asked yesterday, and before giving you, you might say, an administrative decision on our part, we would like to pursue further the legal decision, as we only got the question last evening.

In addition to that, we got a report yesterday morning for the first time, in which the Aluminum Co. of America is replying to the surplus property report, and I gave it to somebody to answer, presuming there would be some objections in it to our report, and only had a chance to read a little bit of it this morning. In fact, I was just looking through two or three pages.

Apparently the Aluminum Co. of America feels that we are hanging our hats, you might say, with respect to the sale or lease of these plants, on the basis of subsidy.

The question of what is or is not a subsidy, as the custodian of this property, appears to me now to be a very difficult question to answer. If you want to sell a house as a trustee, wouldn't you be allowed to fix up the garden or the roof; or perhaps, if the house was in your charge, to get for it the best you could would you be allowed to agree to pay the maintenance charges on the house, until the tenant knew exactly what his maintenance problems were, for the first year, under a 10-year lease?

I am only thinking out loud, because there is no use of trying to make an administrative decision until we get a clear legal picture of what our rights are.

Senator O'Mahoney. And would you not be able, in the ordinary course of business, to rent a farm on a share of the profits to be reaped from the operation of the farm?

Mr. Symington. Mr. Chairman, I think that is too obvious to even discuss. I am grateful to you for bringing it up.

Senator O'Mahoney. I think it is comparable.

Mr. Symington. Now we get to this point. Apparently, from reading the reply, the English of it, the Aluminum Co. feels that we plan to destroy them, and the reason they feel that is because we plan to get competition in the industry. And if the only way that we can get competition in the industry is to get into some form of fixing up the property or making arrangements, then I think we had better take a long look at this question, and perhaps have a directive from the Congress, because certainly we don't want to destroy the Aluminum Co. of America.

There is just one other thought, Mr. Chairman. We felt that these hearings would be of benefit to us in this decision, and inasmuch as the hearings are going on, perhaps we will be further clarified in the matter from an administrative standpoint, and at the same time can get our legal picture clear.

Senator O'Mahoney. I hope we will all be enlightened.

Senator McClellan. The purpose of asking the question and bringing this up was to try to help clarify the legal picture, and to know how you were going to administer after that picture was clarified.

Mr. Symington. Yes, sir.

Senator McClellan. I don't know whether it has been helpful.

Mr. Symington. Very helpful.

Senator McClellan. There seems to me still a little confusion, at least, and that is why I asked the specific question with reference to the

Reynolds contract, because that is a concrete proposal. Whether you call it repairing the garden or sharing the profits on a tenant basis, share cropping, or whatever you want to call it, it is a concrete proposal; and I want to ascertain if you do now have the authority to accept such a proposal and to enter into such a contract. That is what I am trying to ascertain.

Mr. Cox. Perhaps I had better make one more statement in an attempt to make my views on that point clear.

I think it comes to this, as I said before: Accepting Mr. Goodloe's testimony of yesterday afternoon as to the scope of his legal authority, which I do, it is my view now that we have the authority to accept the Reynolds proposal, provided that proposal is modified by taking out of it the provision for the purchase of ingot.

Senator McClellan. That is one point I would like to clear up with Mr. Husbands or Mr. Goodloe.

Senator O'Mahoney. Senator McClellan——

Senator McClellan (interposing). I have got to conclude and leave, if I may make this statement.

Senator O'Mahoney. This was to carry out your objective. Since Mr. Goodloe is not here, I shall see that a copy of this record is placed in his hands as soon as it is available, and I shall ask him to prepare a written statement of his legal opinion.

Senator McClellan. That would be fine.

Senator O'Mahoney. And have it inserted in the record.

Senator McClellan. That will be fine. And in that opinion, the question I want to ask him is a request that when he answers, he will differentiate his contention of having the authority to share losses and not having the authority to purchase ingot.

Now, I would like to know where the difference in authority is. If he can do one thing to promote competition, why can he not do the other, and where is the difference? What section or provision of law differentiates between the two authorities?

Senator O'Mahoney. And I think the record at this point ought to show that according to the testimony of yesterday, Mr. Husbands has said that the Reynolds offer had not been accepted.

Senator McClellan. I can appreciate that, that no offer has been accepted, but we are getting offers that we are going to act on.

Senator O'Mahoney. I did not say that to inform anybody here. I said it to inform those who may be reading this record.

Mr. Borchardt. Mr. Chairman, would it be proper at this point to ask the representative of the Reynolds Co. whether a provision for the purchase of metal is an indispensable part of the offer?

Senator O'Mahoney. That is a good question. Mr. Caskie? Is there a representative of the Reynolds Co. here now?

Mr. Fulton. Mr. Caskie is apparently not here at this time.

I have represented Reynolds in some of the negotiations, working with them, and I think that this modification would require a consultation between the various directors of Reynolds to determine whether they would be able to make any such modification, important modification. That is a basic provision in the Reynolds offer, and if it is to be eliminated I think the whole offer will have to be revised and changed in other respects as well.

Mr. Borchardt. Could the same question be asked of Mr. Gallagher of Columbia Metals?

Senator McClellan. Is that same provision in their offer?

Mr. Borchardt. Yes.

Mr. Symington. Our sole interest is the disposal of these plants on the best basis for the Government, and we hope that the Congress is as interested in getting up some plan of some kind that will keep people working in these plants and dispose of them, as naturally we have to be under the act. We would welcome any direction to that end.

IS REYNOLDS LEASE A SUBSIDY? SENATOR WHERRY ASKS

Senator Wherry. Mr. Cox, have you changed your opinion on the legal question relative to authority to either pay out-of-pocket money as a direct subsidy or to authorize the Administrator to negotiate a contract, the provisions of which are embodied in the Reynolds offer?

Mr. Cox. I have not, sir, for this reason: The day before yesterday when I answered the question about the scope of our legal authority, I said that I was speaking of the authority given to these disposal agencies by the Surplus Property Act, and I was not talking about the authority given them under other acts.

Senator Wherry. I want to ask you a further question. The statement just made in answer to Senator McClellan gave me the impression that possibly you had changed your mind. What you are talking about now is authority under the Surplus Property Disposal Act, and you are not expressing any opinion, legal opinion, as to whether or not RFC might do this without any authorization?

Mr. Cox. No, except that I said before you came in that, as you know, Mr. Goodloe yesterday expressed the view that they had the authority; and I accept his opinion that they do.

Senator Wherry. Let's be perfectly frank about this. Does the Reynolds lease, in your opinion, constitute the payment of a subsidy?

Mr. Cox. Well, Senator, I think, to be quite candid, that my answer to that question would depend on whether I liked or disliked the Reynolds lease. If I disliked it, I would call it a subsidy.

Senator Wherry. If that isn't a weasel-worded answer, I don't know what you would call it. You are an expert counsel here, and as a Senator from Nebraska trying to help the taxpayer out, I want to know what your opinion is on that Reynolds lease, or one just like it. Is it a subsidy or is it not a subsidy? Just say it is or it is not; that is what I would like to have you say, if you will.

Mr. Cox. Well, I would say, if you want my personal view, that it is not a subsidy. But I think that I would have to say, in candor, that a reasonable man might argue otherwise. The word "subsidy" is a fighting word, it is an epithet and not a description.

Senator Wherry. In answer to that I want to say this, that I notice you fellows use "incentive" and "aid" and everything but "subsidy." What I want you to do is to tell us in the record, if you will, is this a subsidy?

Mr. Cox. I have not used the word "aid" and I have not used the word "incentive." I have tried to describe these things in precise terms.

Senator O'MAHONEY. Let me say, Senator Wherry, before you arrived on the scene, and we had pursued this matter quite extensively, Mr. Cox clearly stated with respect to the Reynolds lease or the Reynolds offer that there was a provision in it for the purchase of ingot which, in his opinion, the Surplus Property Administration has no authority to carry out.

Senator WHERRY. All right.

Mr. Symington, you asked me what I would do with these plants yesterday, and I gave you an answer. I would like to suggest to the chairman—of course, editorials in papers probably would not be admitted in evidence in any court, and I want you to know that I know that—but there are three paragraphs from an editorial in the New York Times which I think clarify my statement considerably, and I would like to ask if I might include that in the transcript after my remarks of yesterday and the answer that I made to Mr. Symington.

Senator O'MAHONEY. Yes; without objection, it may be included.

Senator WHERRY. Thank you.

(The New York Times editorial referred to by Senator Wherry is inserted at this place in the record since the record of yesterday's session was already in process of printing when his request was submitted.)

[Editorial for the New York Times of October 16, 1945]

ALUMINUM SUBSIDIES

Surplus Property Administrator Symington has asked Congress to determine whether or not new producers should be subsidized when they acquire surplus aluminum plants. At the same time RFC Director Sam H. Husbands has testified that "nobody but the Aluminum Co. of America is willing or able to buy the plants. * * * The only offer to lease has come from Reynolds Metals, which wants a 5-year lease under which the Government would stand all losses for the first year." We are confronted here with an important problem of public policy. The question is: Shall surplus-property plants, which cannot stand on their own feet economically when sold or leased to certain private groups in an effort to avoid a monopoly, be subsidized by the Government?

The aluminum industry has been controlled by one large company. The Department of Justice has been seeking to break up this company for some time. Assistant Attorney General McGranery told the congressional committees that "competition will be established within the industry no matter what it takes." We have had a long history of trust busting. But throughout that history we have not adopted a national policy of subsidizing competitors such as is proposed here. Nor have we attempted to break up monopolies on any such basis as suggested in the phrase "no matter what it takes." In general, it has been held that bigness alone is not to be condemned. Only when that bigness is used to develop an unreasonable restraint of trade was action to be taken.

Use of coercion, the development of unfair practices, and the maintenance of high prices have been among the tests of undesirable monopoly. Despite the domination by one company, aluminum prices have declined steadily through the years. This decline even continued during the war. Moreover, under modern technology, control over the supply of a commodity by one or few sellers does not give those sellers the power of life and death over their customers. Substitute products are an important factor in checking abuse. For most uses of aluminum there are substitute products available. These include plywood, light steels, plastics, and other metals.

If it is established that undesirable effects upon our economy flow from the aluminum situation, we have the means of correcting them through the antitrust acts. Government subsidization of competitors would be an unfortunate alternative which inevitably would lead to a steadily larger drain on the Treasury and would furnish another form of Government competition with private industry.

Senator O'MAHONEY. Very well, Mr. Symington, we are very much indebted to you, and I am sorry that we had to take so much of your time.

(Discussion off the record.)

Senator O'MAHONEY. Mr. Wilson, will you proceed with your statement now? Before proceeding, however, may I suggest that you identify yourself and your associates for the record so that we will know just who they are, and so that the reporter will know?

STATEMENT OF I. W. WILSON, VICE PRESIDENT, ALUMINUM CO. OF AMERICA, ACCOMPANIED BY LEON E. HICKMAN, COUNSEL; AND ARTHUR P. HALL, ASSISTANT SECRETARY, ALUMINUM CO. OF AMERICA

Mr. WILSON. I am I. W. Wilson, vice president of the Aluminum Co. of America. On my left is Mr. Arthur P. Hall, who is assistant secretary, and our Washington representative, and on my right, Mr. Leon E. Hickman, who is counsel for the Aluminum Co. of America.

Mr. Chairman, I would like to say that the Aluminum Co. of America, Alcoa, appreciates this opportunity to come before this joint committee and express itself on the questions we believe have been raised by the report of the Surplus Property Board and the report of the Attorney General, and we hope that we can make our position clearer than we believe has been made in those reports, and that we can be of assistance and helpful to these committees in working out a program for the disposal of these properties in the aluminum industry.

Senator O'MAHONEY. On behalf of the committee, Mr. Wilson I desire to express my appreciation for that statement of yours. I might also add that the whole committee, and all of Congress, recognize that we are confronted here with a problem of immeasurable magnitude. We are seeking the best advice that we can obtain. We are not here at all in an adversary capacity with respect to anybody, but we are merely trying to confront the facts as they exist and see what our course from now on should be.

QUOTES FROM LETTER FROM ALCOA TO MR. SYMINGTON

Mr. WILSON. I believe that it will be more helpful in pointing out the specific points—at least from my point of view—if I might be permitted to read the letter we have recently written to Mr. Symington. In a letter dated October 15, 1945, we wrote to Mr. Symington as follows:

The position of Aluminum Co. of America in the aluminum industry is not correctly stated in the report to Congress dated September 21, 1945, by the late Surplus Property Board. That report presents Alcoa (1) as dominant in the control of the raw materials from which aluminum is made, (2) as such a low-cost producer of aluminum that no one can compete without governmental assistance, (3) as dominant in the world aluminum market, and (4) as a ruthless competitor. These are incorrect assumptions, but it is on the basis of them that the report reaches the conclusion that the Government-owned aluminum plants cannot be operated competitively unless the lessees or purchasers are sustained with tremendous Federal subsidies, which will carry in their train a substantial governmental control of prices and markets. We protest both those premises and that conclusion.

In order to meet a nonexistent condition, the report proposes the following six-point subsidy program which applies to every phase of aluminum manufacture and sale—a cradle-to-the-grave program which, once started, can never be terminated:

Subsidy No. 1: Government guaranty against losses.

Subsidy No. 2: Purchase options based on earnings' record under the subsidized leases.

Subsidy No. 3: Government procurement of bauxite.

Subsidy No. 4: The subsidized manufauture of alumina for sale at prices equal to or lower than Alcoa's cost of manufacture.

Subsidy No. 5: Reduced power rates on Government-owned power to operators of Government plants.

Subsidy No. 6: Government stock-piling of aluminum ingot purchased from operators of the Government plants.

It appears to be the plan to put these subsidies into effect through the use of general funds of the Reconstruction Finance Corporation without seeking Congressional appropriation or approval.

Senator O'MAHONEY. May I interrupt?

Mr. WILSON. I would appreciate it because I realize, and I want the committee to realize, that this letter was necessarily written before these hearings started, and I am sure that, written today, that statement would be modified.

Senator O'MAHONEY. There probably will be some other modifications, will there not?

Mr. WILSON. I am sure there will be, and incidentally I want to also call attention that the footnotes having reference to the Surplus Property Board's report refer to pages in the mimeographed report, because that was the only report we had available, the printed report had not yet come out when this letter was written. If there is any question at any stage as to the reference point, I have tried to correct the pages in the copy from which I am reading, so that I can refer you to the specific page in the final printed report.

Senator O'MAHONEY. Inasmuch as in your answer to my query you say that if this letter were written today it would be modified, do you care to indicate, at some convenient time, what those modifications would be?

Mr. HICKMAN. It would be underscored here and there, too.

Mr. WILSON. Yes; I accept Mr. Hickman's correction there.

Senator O'MAHONEY. Let's have them both; we are trying to get the facts and you come before us now with a letter which immediately is recognized as being out of date and outmoded.

Mr. WILSON. I don't believe in this case, having heard Mr. Cox this morning, that this particular statement need be greatly changed.

Senator O'MAHONEY. Well, how about subsidy No. 6? The statement has been clearly made here now, on behalf of the Government, that there is no authority to purchase ingot.

Mr. WILSON. I still think, Mr. Chairman, that the report indicates that that is one of their proposals.

Senator O'MAHONEY. That, of course, is a conclusion.

Mr. BORCHARDT. Could you refer in the report to the specific passage that suggests the purchase of aluminum ingot?

Mr. WILSON. Pages 18 and 40 of the printed copy.

Mr. HICKMAN. Furthermore, we might find that while Mr. Cox disavows authority Mr. Goodloe will assert it, and this paragraph relates to the authority of the RFC.

Mr. WILSON (continuing):

It will be interesting to observe whether you follow the same formula of subsidized governmental control when, as required under section 19 of the Surplus Property Act, you report to Congress on the disposal of plants and facilities devoted to the manufacture of magnesium, synthetic rubber, chemicals, aviation gasoline, iron and steel, aircraft, and radio and electrical equipment and on the disposal of pipe lines and shipyards.

As citizens and taxpayers, we are opposed to Federal subsidies. That road leads only to the destruction of the very "peacetime economy of free, independent private enterprise" that Congress directed to you to promote. The proposed subsidies involve governmental control of key functions of the large segment of the aluminum industry now owned by the Government, and the policies thus decreed will be equally decisive for the balance of the industry.

Our protest is directed at (1) the subsidy plan, (2) its misconception of Alcoa and the industry, and (3) the apparent underlying objective of breaking up Alcoa or governmental operation, as well as ownership, of aluminum plants, if the subsidy program does not work out satisfactorily.

The report seeks to justify the program by its inaccurate assumption of above four vital matters as well as of other matters, and accuses us of illegal practices of which we have been wholly exonerated by the district court which tried the Government's antitrust action against us and by the circuit court of appeals which—as a substitute for the Supreme Court—reviewed that decision. Surely a Federal agency should accept, as completely as citizens and corporations must acknowledge, the finality of decisions made and affirmed by our courts.

We are compelled to conclude that the ultimate objective of the plan is the destruction of Alcoa by subsidizing competition in the industry that it created, or its dissolution by Government-induced court decree—the "atomization" of the company, as a former Assistant Attorney General proclaimed it—or governmental entry into private business in the form of Federal operation of the Government-owned aluminum plants.

Senator O'MAHONEY. Now as you read that, Mr. Wilson, of course you bear in mind the specific disavowal by Mr. Symington, before you took the stand, of any purpose on the part of the Surplus Property Administrator to bring about the destruction of Alcoa?

Mr. WILSON. We heard that with a great deal of interest, Mr. Chairman.

Senator O'MAHONEY. But you did hear it?

Mr. WILSON. Yes; and we appreciate it. [Continuing:]

We know that these alternatives were in mind, because the summary of the report concludes with the observation:

"The Board recognizes, however, that conditions beyond its control may make the program impossible of accomplishment. In that event, unless the courts dissolve or reorganize Alcoa under the Sherman Act, Congress will have to consider whether to leave the aluminum industry under the domination of one company or whether to authorize the Government, either by subsidized or direct operation of key plants, to provide some measure of production that is independent of Alcoa's control."

Indeed, we are led to believe that these alternatives appeal more strongly than the sale of the Government plants to private enterprise, because the report states that:

"In fact, it may not be possible for the Surplus Property Board to dispose of the plants to competitors of Alcoa unless and until the Court does require some degree of dissolution or reorganization of the property Alcoa now owns."

The fact that the Department of Justice, only 10 days prior to the report, submitted a 139-page document to Congress devoted almost wholly to an argument for the dissolution of Alcoa seems to us more than a coincidence.

This purely destructive attitude is in striking contrast to the ruling of the circuit court of appeals in the Alcoa antitrust case which postponed all consideration of dissolution until the Surplus Property Board had disposed of the Government plants, pointing out—

"Dissolution is not a penalty, but a remedy; if the industry will not need it for its protection, it will be a disservice to break up an aggregation which has for so long demonstrated its efficiency."

It can be shown from facts taken from the report, or from authoritative sources, that the Government-owned aluminum plants, in the hands of competent operators, are fully competitive without putting the Government into the aluminum business either directly as a postwar operator or indirectly through a program of Federal subsidies which continue indefinitely and will effectively kill any chance of achieving an economically sound, low cost, mass-production industry. We present these facts in the hope that you and your advisers will reconsider the subsidy-ridden program now proposed.

There "you and your advisers" refers, of course, to the Surplus Property Administrator.

Senator O'MAHONEY. Now, Mr. Wilson, you have read such parts of this letter of October 15 as you felt were necessary to set its purposes forth to the committee. May I ask you now again about the modification of that letter? I do that because this second paragraph, on page 4, begins with this phrase:

This purely destructive attitude is in striking contrast to the ruling of the circuit court of appeals—

and call your attention again to the statement made by Mr. Symington denying any destructive purpose. Do you care to make any acknowledgment at all of the position which Mr. Symington took here before this committee?

Mr. WILSON. Yes; I would like to, Mr. Chairman, in that, as I said, I heard Mr. Symington's testimony with a great deal of interest, and I heard him, I won't say disavow his report, because I think I understood him to say that——

Senator O'MAHONEY (interposing). I said that he disavowed any intention to bring about any destruction of Alcoa.

Mr. WILSON. Whatever his intention may have been, we believe that the recommendations as contained in that report are to that end.

Senator O'MAHONEY. You said a little while ago, in response to my question, that in the light of the testimony which was brought forth here you would modify some of the contents of this letter.

Mr. WILSON. I imagine there may be some modifications.

Senator O'MAHONEY. Now may I ask you, also, since there has just come to my desk a copy of a release which has been issued to the press by Alcoa, whether this release now in the hands of the press was prepared before the testimony of Mr. Symington was received this morning?

Mr. WILSON. Oh, yes; it was prepared before this morning.

Senator O'MAHONEY. So this release was written and has been handed to the press without taking into consideration the statements which were made here today?

Mr. WILSON. That is correct.

Senator WHERRY. Well, Mr. Chairman, what is wrong about that?

Senator O'MAHONEY. There is nothing wrong about it, but I just want the press to know that the contents of this statement may be just as subject to modification as the letter.

Senator WHERRY. Certainly. I see nothing wrong about that. They couldn't anticipate what Mr. Symington was going to say this morning—you can't radar his mind.

Senator O'MAHONEY. There was no such implication in my question. I can't understand why every effort to make the facts crystal clear should be regarded as an attack upon the Aluminum Co. of America.

Senator WHERRY. Are you referring to me?

Senator O'MAHONEY. Certainly, Senator.

Mr. WILSON (continuing):

I. THE SIX-POINT SUBSIDY PROGRAM OF THE SURPLUS PROPERTY BOARD

SUBSIDY NO. 1. GOVERNMENT GUARANTY AGAINST LOSSES

The program contemplates the leasing of alumina and aluminum smelting plants on terms which give the operator 15 percent of the profits, but require the Reconstruction Finance Corporation to stand all losses, subject to a right in the Reconstruction Finance Corporation "to review and approve the price at which metal is sold, the top salaries, and extraordinary expenses."

There is no need for such a subsidy, and its consequences are indefensible. This subsidy is an invitation to reckless, extravagant, and calculated mismanagement. Less than a month ago you testified before the Mead committee in opposition to the very subsidy now proposed, stating:

"In our opinion—I think in the opinion of the committee at Spokane—some of that loss should be absorbed, even if it is only a very small percentage, by the company with whom an arrangement is made. If we can't get anybody to work on any other basis, we will accept an arrangement of that character, but it would seem that unless the company or companies that come in accept some of the loss, you are not likely to have good management as if they were responsible for some of it."

1. If the Government bears the losses, it is an inducement to the operator thus subsidized to capture customers of Alcoa and those of all other privately owned operations, or to create new markets by selling at a price no one can match and send the bill to the Reconstruction Finance Corporation. The operator can also build up an organization by hiring key men and the necessary multitude of technical operators from privately financed competitors, regardless of expense, and send the bill to the Reconstruction Finance Corporation, because it is not proposed to control the payments made to these many and vital men. Under the subsidy plan, only top salaries are Government controlled.

2. The program results in a direct or indirect Government price fixing of all aluminum products. A bureaucrat can ruin privately financed competitors—and there are many besides Alcoa—by approving low enough prices. Who will put a nickel in a privately financed competitive enterprise which is wholly at the mercy of the price policy of the Government-subsidized competitor, who cannot lose?

Senator O'MAHONEY. May I interrupt at that point to ask if you are aware of the testimony given by Mr. Husbands yesterday that the offer from the Reynolds Metal Co. had not been approved, had not been accepted, and, if I remember correctly, that he was not at all interested in any such proposal as is contained in this paragraph of your statement?

Mr. WILSON. This statement, Mr. Chairman, is not based on any Reynolds proposal, which was not available to us at the time this letter was written. It is based on a recommendation in the report of the Surplus Property Board.

Senator O'MAHONEY. That is right. Then it is clearly understood that the testimony which you are now giving from a printed document, which evidently has been in the course of preparation for sometime because it is very carefully printed and contains some 45 pages, constitutes your interpretation and the conclusions which you have reached on the basis of the report of the Surplus Property Board, and not upon the basis of the testimony which has been evoked before this committee?

Mr. WILSON. Very definitely, Mr. Chairman.

Senator O'MAHONEY. So that it is altogether possible that there may be broad changes required in the interpretation of your letter and your statement now?

Mr. WILSON. We sincerely hope there will be, Mr. Chairman. That is the object of filing this letter with the Surplus Property Administrator and bringing it to the attention of this joint committee, because we believe that the report of the Surplus Property Board is based on fallacious ideas and misunderstandings, and involves recommendations which we want the Congress to see what at least we think they mean and where they lead.

Senator O'MAHONEY. My purpose in interrupting you was merely to get it quite clear that anything you are presenting from this document is based not upon the testimony here but upon your interpretation of the report which was filed?

Mr. WILSON. That is correct.

Senator ROBERTSON. Mr. Wilson, may I ask this question? These changes which you suggest now will be brought about, in most cases, by the changes which, in your opinion, have been made by the Surplus Property Board during this hearing?

Mr. WILSON. Senator, I am not sure I get your point, but there are no changes in our letter here that are proper changes as comments on the Surplus Property Board's report, because that was filed, of course, before these hearings.

Insofar as there would be any modifications or changes, they would be for the reason that I think to some extent Mr. Symington has indicated, that he doesn't believe he has authority for certain things that, from his report, we obtained the impression that he was recommending.

Senator ROBERTSON. So it is your impression of the change in Mr. Symington's testimony before the committee which will bring about any changes in this report?

Mr. WILSON. We think that that is one thing this committee has already accomplished; we hope it can accomplish much more.

Senator O'MAHONEY. I think, Senator Robertson, you don't mean to imply that there was any change in Mr. Symington's testimony. There was a report submitted here by the Surplus Property Board. I think the record will bear me out when I say that Mr. Symington's testimony from the very beginning has been altogether consistent. We are dealing here with interpretations, and it is going to be very important for all of us, if we are going to work out a solution of an administrative problem, to dissociate facts from conclusions, and I assume that that is what we are going to try to do.

Now, I have in mind this statement on page 6 which you have just read, under paragraph 2, "A bureaucrat can ruin privately financed competitors—and there are many besides Alcoa—by approving low enough prices."

How many competitors of Alcoa are there in the ingot field?

Mr. WILSON. Two in the ingot field today.

Senator O'MAHONEY. Who are they?

Mr. WILSON. Reynolds and Olin.

Mr. BORCHARDT. Is Olin still in operation?

Mr. WILSON. Yes; but this program carries over to fabricating plants, too, Mr. Chairman, and we have hundreds of competitors there.

Senator O'MAHONEY. I wanted to make clear that when you used the word "many," in the ingot field you are applying to two.

Mr. WILSON. But this is not limited to the ingot field at all.

Senator O'MAHONEY. I was limiting it to the ingot field, which is the field in which the highest legal authority in the land has held that there is a monopoly in Alcoa.

Mr. WILSON. May I correct the chairman on that?

Senator O'MAHONEY. Surely, I want to be corrected.

Mr. WILSON. The highest Court in the land decided that as of 1940 Alcoa had a monopoly in the ingot field. They carefully set out that they did not know what the situation, now tomorrow, is, and what the situation will be, until a program has been determined for the disposal of these Government facilities.

Senator O'MAHONEY. That is it. Depending upon whether or not the disposal of Government facilities strengthens the monopoly or introduces competition, then the further action of the Court will be guided?

Mr. WILSON. That is right.

Mr. HICKMAN. They will also be guided by the Reynolds situation. Their 1940 decision was before Reynolds started.

Senator O'MAHONEY. Of course—as to whether or not there would be competition in the field.

Mr. HICKMAN. That is right.

Senator O'MAHONEY. Naturally that would be the result.

Senator WHERRY. Mr. Chairman, let me get this straight. This statement is prepared by the witness, giving their interpretation of what recommendations were contained in the Symington report, the Surplus Property Board report; is that right?

Senator O'MAHONEY. That is right.

Senator WHERRY. Now, the fact that Mr. Symington or anybody else has testified to something which might change or might not change the recommendations, doesn't alter the testimony given here by Alcoa or Reynolds or any other company as to how they feel about the report, does it?

Senator O'MAHONEY. That is precisely what I said a few moments ago. I just wanted to make it clear on the record.

Senator WHERRY. Regardless of what Mr. Symington said this morning, that doesn't prevent Alcoa from giving their interpretations of what they think the Symington report meant when they made their recommendations.

Senator O'MAHONY. That is precisely what the Chair said.

Senator WHERRY. I understand it now.

THREE CONCERNS NOW PRODUCING ALUMINUM INGOT

Mr. ANDERSON. There is just one point of fact, Mr. Wilson, with respect to ingot production. You mentioned that there were three competing firms at the present time. My understanding is that Olin, one of the firms you mentioned, is not operating in that field at the moment.

Mr. WILSON. I can't speak authoritatively for Olin, but may I ask the Chair to call on the representative of Olin to ascertain that?

Senator O'MAHONEY. That is a good idea. Can a representative of Olin answer that?

Mr. ROUSSEAU. To the best of my knowledge we are still operating. We have had some differences with labor at our East Alton plant for

the past month or so, and they saw fit to keep all of our executive personnel out of their offices.

Senator O'MAHONEY. The question is, Are you now producing aluminum ingot?

Mr. ROUSSEAU. We were 3 weeks ago when I last heard from headquarters. Nobody has been allowed to get in there for the last month or so.

Senator O'MAHONEY. Then assuming that Reynolds is producing, we have three producers of ingot—the Aluminum Co. of America, Reynolds, and Olin. Now may I ask if you are producing under a Government contract?

Mr. ROUSSEAU. Yes, sir; that is a DPC–owned plant.

Senator O'MAHONEY. And you are producing under one of the RFC–DPC subsidy contracts which were made for the purposes of this war?

Mr. ROUSSEAU. I would rather skip that word; but we are producing under that contract.

Senator WHERRY. I want to thank the chairman for using the right word there. [Laughter.]

Senator O'MAHONEY. I always try to, Senator Wherry.

Mr. ROUSSEAU. Senator, may I add that I have just checked with Dr. Sebastian, of the War Production Board, who have control over this plant as I understand it, and he says we are still producing.

Mr. TROY. Would the gentleman from Olin state whether they intend staying in the business of producing aluminum; is it their intention to continue as a producer in the future?

Mr. ROUSSEAU. Senator, I happen to be only an observer here. We have a staff executive who is in charge of all of this and who had intended to come to all of these meetings, but again due to these differences between labor and management nobody has been able to get in his office for the last month.

Senator O'MAHONEY. I think it becomes clear as we go along that those who are in charge of the Government's interests in this field must expect to negotiate at arm's length with all of those who are seeking to acquire the facilities.

Mr. TROY. Still further with reference to Olin, the information has gotten around that Olin will not continue as long as they do not have their own independent bauxite supply. I wonder whether anything is known about that?

Mr. ROUSSEAU. Senator, we submitted some testimony here before the Small Business Committee. I wouldn't say at all that we have lost our interest in it. We expressed our position at that time as to what we would need to go in without subsidy and operate with our own funds, and as far as I know that condition still prevails.

Senator O'MAHONEY. Thank you very much.

You may proceed, Mr. Wilson.

Mr. WILSON (continuing):

3. Cost-plus contracts are always an invitation to increased costs and lowered efficiency. Can it be any different in a plant in which the Reconstruction Finance Corporation foots the losses?

4. It is wholly misleading to say that Alcoa operated Government-owned plants during the war on the same basis as is now proposed. It had built the plants for the Government, without fee or profit, and made available all the experience and know-how acquired over more than 50 years. Alcoa was required to reduce its ingot price to 15 cents a pound and to submit to governmental price controls on all products manufactured in the leased plants. Alcoa was also required to sell the output of these plants for war purposes on Government allocation of the War Production Board.

Senator O'MAHONEY. I am prompted to inquire, just as a matter of information: Were these contracts subject to renegotiation?

Mr. WILSON. I am not sure. My counsel here says "Yes."

Mr. HICKMAN. Yes, they were, Senator.

Senator O'MAHONEY. Were they renegotiated?

Mr. HICKMAN. Yes.

Senator O'MAHONEY. Do you know whether or not the contract with Aluminum Limited of Canada was renegotiated?

Mr. HICKMAN. I know no more about it than you—if you know nothing about it.

Senator O'MAHONEY. I know nothing about it.

Mr. TROY. The Small Business Committee brought out that it was not renegotiated.

Senator O'MAHONEY. There was a purchase there, by the Government of the United States, as I recall it, of some million pounds——

Mr. TROY (interposing). It went to a billion.

Senator O'MAHONEY. That is right, a billion pounds of aluminum.

Senator WHERRY. We went into that very thoroughly in the Small Business Committee, and when they found that there was a surplus they canceled the contract and they got over the fence and out as quickly as possible; isn't that true, Mr. Anderson?

Mr. ANDERSON. Yes.

Mr. GOLDSCHMIDT. I understand that the escalator clauses in that contract were renegotiated.

Senator O'MAHONEY. I think that is aside from the question.

ALCOA'S PROFITS ON GOVERNMENT CONTRACTS NEARLY $30,000,000

Mr. ANDERSON. On your point 4, Mr. Wilson, yesterday we had testimony from the RFC and other people present to the effect that the Government, in its relationship with Alcoa with respect to Government-owned plants, made a very handsome profit of many millions of dollars in the wartime production of aluminum. The Government was paying 15 percent of the profit and retaining 85 percent of the profit, as I understand it, on the operation. Could you supply the committee for the record with the amount of profit taken from the operation of Government-owned aluminum plants by Alcoa during the period of its leased operations?

Mr. WILSON. I have that over-all figure in mind now, and it appears later in the statement. It is nearly $30,000,000—$29,000,000 plus.

Mr. ANDERSON. Alcoa did not sustain any losses, then, but made a profit of approximately $30,000,000 in the operation of these Government-owned plants?

Mr. WILSON. No, indeed; the $29,000,000 plus was the gross payment by Alcoa to the Government for operating the alumina and aluminum smelting plants.

Mr. ANDERSON. What kind of a profit did Alcoa make from the operation of these Government plants?

Mr. WILSON. Before taxes the corresponding profit to Alcoa was about $6,000,000, I believe. That is not the exact figure, but it would be in that neighborhood.

Mr. ANDERSON. So that, although Alcoa, as you say, built these plants for the Government without fee or profit, the operation of the plants did result in a substantial profit to Alcoa?

Mr. WILSON. That is correct.

Senator O'MAHONEY. And at the reduced price for aluminum?

Mr. WILSON. That is correct.

Mr. TROY. Does that include the 4 percent overhead by the Government to Alcoa and 2 percent in other instances?

Mr. WILSON. I don't know what you mean. It is an expense that is included——

Mr. TROY (interposing). But it was treated as an expense item?

Mr. WILSON. That is correct—not included in the profit.

Mr. TROY. In other words, it was money paid by the Government to Alcoa?

Senator O'MAHONEY. He said that it is not included in the profit.

Mr. WILSON. It works the other way. The Government trusted Alcoa to operate these plants and trusted Alcoa to collect the money when we sold the product from these plants, and then we accounted to the Government for the operation and paid all the expenses in connection with the operation of all of these plants, and paid to the Government, then, $29,000,000 plus. The Government itself didn't pay Alcoa anything.

Mr. ANDERSON. To pursue that for a moment, the Government had the investment, not Alcoa?

Mr. WILSON. That is correct.

Mr. ANDERSON. It was the Government's property and you were leasing these plants, and operating them on the terms of a lease which insured you against any and all losses, and with a guaranteed profit, or a share in the profits, of 15 percent?

Mr. WILSON. That is correct. But when we were guaranteed against all losses we first wrote a blanket contract on August 19, 1941, under which we undertook and agreed to build for the Government certain aluminum plants, and the start of the Hurricane Creek alumina plant, and in that same contract agreed that we would operate such of those plants as the Government wished us to operate, under certain provisions as set forth in that contract; and we also agreed that at any time in the future the Government program called for more construction which they wished Alcoa to undertake for the Government, we would build those plants. So that the first contract was a blanket contract and there was no ability to foresee, either on the part of Government or of Alcoa, what might be brought in under the provisions of that first blanket contract. It was felt that there might be programed plants that had no possibility of being economically operated, but which would be needed to provide material for the war program, in order to permit us to win the war. And Alcoa went wholeheartedly into an arrangement to give to this Government everything that it could give to the successful conclusion of the war.

GUARANTIES AGAINST LOSSES AND SUBSIDIES

Senator O'MAHONEY. That is not at issue here, Mr. Wilson. I think that I can say that everybody agrees that Alcoa did an efficient job, and that the production of aluminum by Alcoa and the other corporations which were subsidized by the Government and guaranteed against losses was absolutely essential to the winning of the war. We are now looking forward to the future and the question which is presented here, as I see it—in view of the fact that Congress has repeatedly declared a policy of reestablishing competition—is to what extent and in what manner the Government, by its disposal policies, may promote the utilization of these aluminum plants in a competitive system. That is what we are looking at.

Now you are attacking, as I gather it, the policy in peace of subsidy from which you benefited in time of war, and, of course, there is a big distinction. The Government had to subsidize Alcoa and Reynolds and Olin and all the others in order to make sure that we did produce the aluminum necessary.

Mr. WILSON. Mr. Chairman, may I ask you this question?

Senator O'MAHONEY. Surely.

Mr. WILSON. Where did the Government subsidize Alcoa during the war? We paid the Government over $29,000,000 for the right to run these plants. Does that constitute a subsidy to Alcoa?

Senator O'MAHONEY. Was there not deducted from the over-all of $42,000,000, some $13,000,000 of losses?

Mr. WILSON. But we did this in a whole blanket arrangement; we said, "Throw in anything you want."

Senator O'MAHONEY. In other words, there was a guaranty against loss. Fortunately on the whole there wasn't a loss; but there was a guaranty against loss, was there not?

Mr. WILSON. There was, yes.

Senator WHERRY. Mr. Chairman, may I ask a question?

Senator O'MAHONEY. Surely.

Senator WHERRY. Mr. Wilson, is it the "know how" that made the difference between what might have been a profit or a loss in your operation of those plants? The reason I am asking that question—and it is entirely different from the point made here—is that in the testimony before the Small Business Committee Mr. Reynolds testified that they could not produce ingot aluminum for, I believe it was, 15 cents a pound——

Mr. WILSON (interposing). That has been the price.

Senator WHERRY. Well, that they couldn't produce it for less than that except at a loss. What I would like to know—because it might have a bearing on the Government putting anyone else in business—is this: I take it that if there had been a loss then there would have been a subsidy because you had this guaranty. But you made a profit. Now what I want to know is this: Is it the "know how" that produced that profit or could another business, operating under those guaranteed contracts, have produced that aluminum at that price or would it have had to be reimbursed because it couldn't make it? What is your opinion of that?

Mr. WILSON. Well, I hesitate to express certainly more than an opinion; it isn't any judgment on my part. But I can't see how it can be much of anything else. I think it sounds a little bit immodest for Alcoa to step up and say, "We know a little more about this business than anybody else." Maybe we do; maybe it is a fact.

Mr. TROY. Mr. Reynolds indicated that the price they paid for bauxite was far greater than Alcoa's price, and that his power rates were higher, based upon his considerably different contract rates for power.

Senator WHERRY. What I want to know is just this thing: Could we go out and subsidize any new firm and obtain the same results?

Mr. TROY. It wasn't just based on "know how"; it was on the price of bauxite and power.

Senator WHERRY. I am not interested in that. They simply made the statement that they couldn't produce for less than that; I don't know what the difficulty was and that is beside the question. I want to know if there is a "know how" in the production of aluminum—there are no patents about it, and I am not asking you to be immodest—but I want to know if the Government could expect to put another outfit in business and go in and produce this material, as an integrated competitor, and be able to compete because they do or do not have the "know how" that you seemed to have in producing a profit in those plants, where others seemed to lose money at the same price?

Mr. WILSON. Without wanting to sidestep in any way, of course there is a "know how" in any business. Nobody can go and open up a corner grocery store and make a success of it without at least knowing how to buy and how to sell and how to stock and what to prepare for. Of course there is a "know how" in any business. But why does that mean that the Government—whether it is assistance or aid or whether it is subsidy—should go out and help this other man in? Experience is what he needs and that is the only way Alcoa got it.

Senator TAYLOR. We are not going to help the corner grocer because there definitely is competition in that field. We are interested in seeing that there is competition in the aluminum industry, if there is to be any help for anybody.

"ALCOA WELCOMES COMPETITION," WITNESS SAYS

Mr. WILSON. As far as Alcoa is concerned we will welcome competition that is sound, straightforward, honest competition. We realize that we have got much to gain from it, but we want straightforward, honest, on-the-line competition, and the stronger it is the better it will be.

Senator O'MAHONEY. But you take the position that Government should not, by any aids or incentives, encourage little business to become competitors?

Mr. WILSON. Not at all. Alcoa started as a little business.

Senator WHERRY. You didn't use the right word that time, Senator. [Laughter].

Senator O'MAHONEY. I am using this word with malice aforethought because I have in mind some of the bills which have been introduced in Congress and some of the policies which have been recommended by the Small Business Committee.

I say, Mr. Wilson, that you nevertheless take the position that the Government should not, by aid or incentive, help little business to become competitors of Alcoa?

Mr. WILSON. Oh, no; not if you will limit your aid and incentive to proper aid and incentive.

Senator O'MAHONEY. All right. Now that is what we want. Will you, sometime during the hearing, tell us what you regard as proper aid and incentive to be extended by the Government in the disposal of these plants to competitors of Alcoa?

Mr. WILSON. I hope that I may be able to, but I am just human enough, and it is much easier, to say what I don't think is proper rather than what I think is proper, and I admit that that is a human failing. [Laughter.]

"PATENTS AND KNOW-HOW SHOULD BE PAID FOR IN SOME WAY," SAYS MR. STRAUS, OF AMERICAN SMELTING & REFINING CO.

Senator O'MAHONEY. Now I understand the story. I notice Mr. Straus of the American Smelting & Refining Co. here, who may be able to make a comment on the "know how," concerning which Senator Wherry asked.

Mr. STRAUS. Mr. Chairman, I am quite sure that in any metallurgical operation as complicated as the production of aluminum, and particularly of alumina at the Hurricane Creek plant, that anybody who hasn't got the "know how" cannot operate it. The "know how", as Mr. Wilson says, comes from experience, and I think if anybody were to be given the "know how" to operate that plant they should have to pay for it in some way, under some license agreement, not only for the patents but also for the "know how."

I don't think that it is proper to say that the Government should hand the "know how" over to anyone for nothing. Whether or not the Aluminum Co. would want the "know how" in other hands, I don't know.

Senator O'MAHONEY. How much "know how" is there?

Mr. STRAUS. A great deal.

Senator O'MAHONEY. And where is it?

Mr. STRAUS. So far as the alumina operations at Hurricane Creek are concerned, it is entirely in the hands of the Aluminum Co. of America, so far as I know.

Senator O'MAHONEY. So that the Aluminum Co. of America, so far as Hurricane Creek is concerned, at least, has a monopoly on the "know how"?

Mr. STRAUS. So far as I know.

Mr. BORCHARDT. Mr. Wilson, would you mind stating for the record whether the operations of all the plants which you operated for the Government were profitable or whether some of those plants operated at a loss?

Mr. WILSON. Oh, very definitely some of the plants operated at a loss. They were inherently high-cost operations.

Mr. BORCHARDT. Would you like to mention some of those?

Mr. WILSON. Without being able to speak with exactitude on this—the Maspeth or Queens plant, operated at a loss——

Senator O'MAHONEY (interposing). There was a heavy power charge there, wasn't there?

Mr. WILSON. Yes; the power charge alone was 7 cents or more per pound of aluminum. The Burlington, N. J., plant is in the same category because of high power charges. The St. Lawrence or Massena, N. Y., plant was in that category. The Riverbank, Calif., plant, I believe, finished a little in the red; it was practically a stand-off. The Torrance or Los Angeles plant, I think, operated at a loss.

Mr. BORCHARDT. So you might say that even with the best of "know how" available to Alcoa, you had to go into the red as to some of the Government-owned plants?

Mr. WILSON. I think that was recognized when they were laid down by the War Production Board, and the only justification for those plants was not that they would result in a profitable operation but that they were the only locations at which sufficient power could be obtained to obtain the production that was felt necessary for the war effort.

Senator O'MAHONEY. We had to expand the production of aluminum, and we had to use the best means available for that purpose even though it were at a loss, and the Government undertook to underwrite the loss.

Mr. WILSON. I think it was felt—although I can't speak positively as to this because I don't know what was in the minds of the War Production Board and its predecessor—but I always obtained the impression that the successful operation, from a financial viewpoint, of the expanded facilities to be owned by the Government, was never considered as to whether it would result in a profit or a loss; it was considered only from the standpoint of, would the material be provided in sufficient quantities and in sufficient time to let us win the war? Insofar as it was given us to have a part in that program, we made every endeavor to see that the part that we had would not only provide the material in time and in sufficient quantities but at a cost that would save the taxpayers as much money as we could save for them.

Senator O'MAHONEY. Now, some of the plants of Alcoa, the plants privately owned by Alcoa, were also expanded, were they not?

Mr. WILSON. Very definitely. As to Alcoa itself, the largest production it had before the war was 327,000,000 pounds a year . We, in 1938, started to expand our production facilities when we felt that there was a shadow over the world, and we put in $300,000,000 of our own money, not dollars that we had but money that we went out and borrowed, and expanded our facilities from 327,000,000 pounds a year to 830,000,000 pounds a year, and we would have made further expansions on our own account but for the fact that we were denied by the Government the opportunity to spend our own money to do so. Mr. Goldschmidt knows that we were willing to increase the capacity of our Vancouver, Wash., plant, which is dependent upon power from Bonneville, but the Department of the Interior said "No," that Alcoa should not be permitted to purchase any more power to expand its plant.

Senator O'MAHONEY. Didn't you have the benefit of the write-off provisions of the Federal law, the 5-year amortization?

Mr. WILSON. Not when we started our expansion in 1938.

Senator O'MAHONEY. But you did later on?

Mr. WILSON. Later on Congress extended that opportunity and, of course, we took advantage of it.

Senator O'MAHONEY. In other words, Congress passed a law which was an aid or an incentive to Alcoa, or if I am to accommodate Senator Wherry, a subsidy to Alcoa to expand its own plants?

Mr. WILSON. But the point I wish to make, Senator, is that we embarked on that program before Congress ever offered that incentive, aid, or subsidy.

Senator O'MAHONEY. Oh, surely, but you took it afterward. All right, you may proceed.

Mr. TROY. As to know-how I think it should be made clear that know-how is nothing kept in the safe, but it is part and parcel of the personnel of the organization. There may be many men who have this know-how in Alcoa. It is not something which is a private formula and which they keep as a formula in the safe.

Mr. HICKMAN. If you want Mr. Wilson, you can't have him. [Laughter.]

Mr. GOLDSCHMIDT. Mr. Chairman, I think it ought to be made clear in the record that the power Mr. Wilson speaks of that was requested of the Interior Department, Bonneville Power Administration, in the winter of 1941, was turned over for the production of a like amount of aluminum to the Reynolds Metals Co., a competitor of Alcoa, because Alcoa already had a substantial block of power from Bonneville Dam and Reynolds had no power from Bonneville Dam at that time; and the act under which the Bonneville Power Administration operates requires that Bonneville prevent the monopolization of Bonneville power by limited groups. Those are the words of Congress. The same amount of aluminum, in other words, was produced from Bonneville but was produced by a competitor of Alcoa, and went into the same airplanes and armaments that it would have gone into had Alcoa made it in its own plant.

Mr. WILSON. I think that is true.

Senator O'MAHONEY. Mr. Wilson, you may proceed.

Mr. WILSON (continuing).

Contrast the postwar lessee, who will be handed these plants, the efficiency and economy of which have been proven, and who will be selling his product, freed of all wartime controls, in a peacetime, competitive market.

Mr. BORCHARDT. Mr. Wilson, excuse me one moment. That does not include the plants which you operated at a loss during the war. As to those plants their efficiency and economy has not been proven?

Mr. WILSON. Those plants are not——

Mr. BORCHARDT (interposing). Efficient and economic.

PLANTS THE POSTWAR OPERATION OF WHICH MIGHT BE JUSTIFIED

Mr. WILSON. That is one thing on which we all seem to be agreed; we all seem to be talking about the same plants, as ones the operation of which in the postwar period is justified.

Senator WHERRY. Do you mean by that, Mr. Wilson, that it is going to be more difficult to operate those plants that you built up during the expansion period than it will be the plants you had prior to that time?

Mr. WILSON. No; I don't. I am glad of an opportunity to clarify that. I think everybody recognizes that the Maspeth or Queens plant; the Burlington, N. J., plant; the St. Lawrence or Massena plant with its present power supply are obviously of no interest to anybody from a postwar operating point of view. The two that might be on the border line are the Riverbank plant and the Torrance or Los Angeles plant. But the plants as discussed in the Surplus Property Administrator's report, which have been the subject of the hearing, are the Mead or Spokane smelting plant, the Troutdale, Oreg., smelting plant, the Jones Mills, Ark., smelting plant, and the Hurricane Creek alumina plant. The Baton Rouge alumina plant I haven't heard discussed

much, and I don't know just why not. I would suppose, maybe, that it is in the same category as the Riverbank or Torrance smelting plants. But there is also the Tacoma, Wash., plant of the Olin Co., which is a perfectly good successful plant as far as I know.

Senator WHERRY. Of course all these plants make up the $700,000,000 we are talking about?

Mr. WILSON. They are only part of the $700,000,000. The $700,000,000 is made up of that group, which have been taken together, the alumina and aluminum-smelting plants, but I believe the largest amount of money—I don't have it in my mind now—but I think the largest amount of money is in the group one step beyond there, the fabricating group.

Senator WHERRY. I see. I think that clarifies it for me but I thought that should be in the record after the questions which have been asked.

Mr. WILSON (continuing).

SUBSIDY NO. 2. PURCHASE OPTIONS BASED ON EARNINGS' RECORD UNDER THE SUBSIDIZED LEASES

It is proposed to give the lessees of Government plants an option to purchase based upon the earnings' record of the plant during the subsidized lease.

Consider the consequences of coupling subsidies Nos. 1 and 2.

1. What would a calculating lessee of a Government plant do, who wanted to buy as cheaply as possible? As a lessee he would spend money with abandon to capture customers and markets and to create a sales organization which would be useful to him when he purchased the plant. Sell below cost, drive Alcoa and his other competitors to the wall, and capture customers for later use. The more he spent during the period of the lease, the better. The Reconstruction Finance Corporation pays the bills.

2. The money he spends in capturing customers and markets, in breaking his privately financed competitors, and in building up an organization may reduce his earnings under the leasehold to little or nothing and, thereby, enable him to exercise his option to purchase the plant from the Government at little or nothing. Leasehold earnings having been nil, therefore, the purchase price will be nominal. Extravagant management on Government money kills two birds with one stone.

3. Even the operator who is trying to operate in a constructive way has every inducement to incur a loss. The more he earns as lessee, the more it will cost him to buy the plant under the purchase option; the more he loses under the lease, the cheaper the purchase price. Why worry about the losses; the Reconstruction Finance Corporation will foot the bill under subsidy No. 1.

4. It is repeatedly asserted that the devolpment of aluminum markets sufficient to absorb the productive capacity of the aluminum industry requires a low sales price for aluminum. But the disposal program, particularly subsidies Nos. 1 and 2, create an absolute barrier against the operation of the Government plants in a low-cost manner. It is inevitable that they will be operated extravagantly. If low prices for aluminum should result under a management that has every financial inducement to be extravagant, it would only be because prices are deliberately set low and the Reconstruction Finance Corporation presented with the bill.

5. This purchase formula, predicated upon postwar earnings, applies to fabricating facilities as well as alumina and aluminum-smelting plants. Hundreds of concerns besides Alcoa have invested private capital in competing plants which are skillfully operated. Under the plan they get no advantage out of this operating ability, as compared with a purchaser or lessee of a plant who pays for the Government plant only on the basis of what he, himself—perhaps with no experience and little ability—chooses to earn out of the plant.

Senator O'MAHONEY. Do you feel, Mr. Wilson, it would be impossible to draw a contract, even under this assumption that it were the policy, although no such contract has been approved, which would protect the Government against the dire results which you have listed here?

Mr. WILSON. I wouldn't know how to draw that contract based on his earnings, as long as you have those earnings as a measuring stick for the price that he is to pay for the plant.

Senator O'MAHONEY. Well, doesn't this assume complete lack of good faith on the part of the operator, and don't you think that the Government could write a contract which would protect itself against such a breach of honesty and fair dealing?

Mr. WILSON. I certainly don't mean, and I am sure this letter does not mean, to impute complete lack of honesty to anyone. But it does point out what can happen under that type of an arrangement, and unfortunately there are, in this world, those who take advantage of a given opportunity.

Senator O'MAHONEY. Yes; but you are describing what might happen in a given set of circumstances where persons without good faith were operating a plant. Now my question is designed to ask you if it would not be possible to get an utterly different result where people have good faith in operating, say the Aluminum Co. of America?

Mr. WILSON. It might be, but I wouldn't know how to protect that. I understood your question to be whether that could be protected in a contract, and I doubt if it can be protected by a contract provision.

Senator O'MAHONEY. Well, now, on that point I think I would be inclined to disagree; I think it could be, but that, of course, is just a matter of opinion.

(Discussion off the record.)

Senator O'MAHONEY. If the members of the committee and the Senators present are agreeable, we will reassemble at 2:30. Without objection, the committee will stand in recess until 2:30.

(Whereupon, at 12:20 p. m., the committee recessed until 2:30 p. m. of the same day.)

AFTERNOON SESSION

Senator O'MAHONEY. The committee will now be in session. We have the opportunity of hearing from Mr. Straus, of the American Smelting & Refining Co.

STATEMENT OF ROGER W. STRAUS, PRESIDENT, AMERICAN SMELTING & REFINING CO.

Mr. STRAUS. Senator, I came here, as you know, at your request and in answer to the telegram of Senator Murray and yourself to comment on the report of Mr. Symington.

Senator O'MAHONEY. We were seeking the best advice we could obtain.

Mr. STRAUS. We have looked somewhat into the question of the possibility of operating one or more of the plants, the Government aluminum plants. The only one which we thought might be an opportunity for private enterprise to enter into was the combination of Hurricane and Jones mills.

Our objective in looking into that was the possibility of a lease with the idea of learning something about the business at the end of the 5 years, and then determining whether or not we wanted to

go into the business on a more vertical basis. The more we looked into it, the less we felt that there was a probability of being able to do that successfully.

The plants, our engineers report, are perfectly wonderful plants, beautifully designed and beautifully built, but the idea of operating particularly Hurricane Creek, which is operating under a patent that was invented by Alcoa, and which made those Arkansas bauxites, as we understand it, as a chief source of aluminum, would make it necessary not only to have the patent but the know-how to operate that patent.

Furthermore, looking into the sales end of the industry, we found that there was a great demand for another supplier of aluminum ingot, but they naturally wanted to know how long the supplier would be in the business, and that of course we could not tell them because our objectives was to test out the business and see how the business would be before we committed ourselves and told the customer that he could rely on our source of supply for a long time.

Altogether, although we would still wish to see what kind of a set-up the Surplus Property Division decided they would make available to the industry, we do not feel there is an opportunity for us under the present set-up.

TELLS COMMITTEE "NO ONE WOULD BE HEROIC ENOUGH TO BUY THOSE PLANTS"

I don't know whether there is any further light I can throw upon the general plan. I think you will find that no one would be heroic enough to buy those plants. They would want to lease them on some basis, and I think they would want to lease them on the basis of being given an option to purchase, possibly applying the profits, however, to the purchase price rather than using a yardstick of how little they make as the price for which they would buy the plant.

That was the way we were looking at it while we were looking into it with the idea of possibly agreeing on the purchase price, the profits that you pay the Government for leasing going toward the purchase.

Senator O'MAHONEY. What were the considerations, may I ask, that prompted you to look into the matter in the first place?

Mr. STRAUS. Well, we are in the secondary aluminum business now. We have a capacity of approximately 2,500 tons per month of aluminum, which is produced, as you know, from scrap. That ingot is not suitable for all types of uses by any means.

Furthermore, we do require a certain amount of virgin aluminum to what they call, upgrade, the secondary aluminum. So, being in the aluminum business to that extent, having had some contact with it, also having interest in two companies that use some of the aluminum, we thought that might possibly build up an integrated small plant.

We never thought that Jones Mills could be commercially operated even when we first looked into it at anything like capacity. I think that is one of the problems, as to how far you can cut down that capacity and still have efficient operation.

Senator O'MAHONEY. Have you given any thought or had any engineering study made of the possibilities of the expanding market?

Mr. STRAUS. Oh, of course, but we feel that that expanding market will in all probability come relatively fast but not positively fast. A 5-year period is awfully fast in any industry.

Senator MCCLELLAN. Do you mean Hurricane Creek and Jones Mills?

Mr. STRAUS. Yes, an integrated operation.

We do believe that the light-metal industry is an industry that will increase very greatly, but there is a million and a half tons more or less of Government stock pile hanging over the situation.

Senator O'MAHONEY. We are confronted here with the same problem that gave the farmers of the country such a headache for 20 years, namely, the problem of surpluses and how to use the surpluses. Is that not correct?

Mr. STRAUS. Probably. I think it is a little different. First of all you are more fortunate in that your raw material doesn't spoil either in the ground or after it has been made into ingots. At intermediate places it does, so that it is possible to plan a little bit more easily than you can with a crop that may spoil or be damaged.

I do think that the aluminum industry is an expanding industry, and that is of course the reason we first looked into it.

Senator O'MAHONEY. I may say that we have demonstrated during this war that with a very active economy furnishing every opportunity for business and for labor, there is a great demand and has been a great demand for all the products of agriculture. We have not been bothered during the war period by attempts to cut down agricultural production. Workers have been able with a full pay envelope to buy all the beefsteaks and all the bread that they desired.

Senator WHERRY. That they could get.

Senator O'MAHONEY. That they could get; yes.

"CAPACITY TO PRODUCE MUST BE MATCHED WITH CAPACITY TO CONSUME," SAYS SENATOR O'MAHONEY

With respect to the products of industry, we have been consuming in the war this tremendous output by which we have demonstrated our capacity.

So as to get it altogether away from aluminum, I would like to point out that the studies of this committee have demonstrated, for example with respect to synthetic rubber for which this country was completely dependent on foreign sources of supply, that we can produce here everything that was ever used. In 1942, the year after we became involved in the war, we produced only 3,500 tons of synthetic rubber. In 1943, we produced more than a quarter of a million tons, and in 1944 production was running in excess of 750,000 tons. That production of synthetic rubber in 1944 was 30 percent in excess of the average annual consumption of rubber in the United States for the 5-year period before the war. At that time, we were using up about 560,000 tons of rubber a year.

So we have in the rubber industry a tremendous capacity to produce. We have got to match that with a capacity to consume, or we are going to see the various industries which we have built up disappear, be closed and put under padlock.

There is great activity out in my country in the West which has been stimulated by the war which will be abandoned. There is a gentleman here from the West now who wants to testify to this committee about the need of maintaining these industries, this aluminum industry, for example, out in the West. All of this is based upon the

concept that perhaps there may be a greater civilian market for rubber, for steel, and for aluminum than perhaps in the past we have thought possible.

Mr. STRAUS. I think most of us will agree to that premise.

Senator O'MAHONEY. There is an opportunity for a bigger production to be consumed profitably, in your judgment?

Mr. STRAUS. There is no doubt about it in my mind. Aluminum is one that probably will be consumed to a larger percentage increase than others.

Senator O'MAHONEY. So the American Smelting Co., coming back to this subject, was sufficiently convinced of the possibility of the postwar market for aluminum that it was willing to entertain the thought of acquiring these two plants?

Mr. STRAUS. That is right; on the theory that those were the two plants after our studies that seemed to lend themselves best as low-cost producers.

Senator O'MAHONEY. Have you any suggestion to make to the committee as to what would be the best policy for the Surplus Disposal authorities to follow to make it possible to utilize these Government plants, instead of having them lie idle?

Mr. STRAUS. No; I do not have. I believe that those plants, if there were enough people who knew how to run them, and particularly the Hurricane Creek alumina plant, could be operated as private enterprise without subsidies provided the surplus aluminum in the hands of the Government was not dumped on the market. The difficulty is that there are patent rights involved, and there is the knowledge of how to operate them involved, and we had looked at it with the possibility of going into it on the theory that we possibly could buy those rights.

Senator O'MAHONEY. What is the patent situation with respect to sintering processes?

Is that covered by continuing patents, Mr. Wilson?

Mr. WILSON. Yes, Mr. Chairman. The only patent of any character that can be considered as a basic patent—there are minor equipment or facilities that are covered by patents which in my opinion involve no particular points of consequence—the basic patent covering what is known as the combination process, which is the integration of the soda-lime-sinter porcess with the old Bayer process for the production of alumina. This is a development which was made by Alcoa and covered by a patent issued to Alcoa.

Senator O'MAHONEY. And that patent is still in effect?

Mr. WILSON. That is a comparatively recent patent; yes, sir.

Mr. BORCHARDT. May I inquire whether that process was developed in the course of operation of the Hurricane Creek plant or does it antedate the operation of the Hurricane plant?

Mr. WILSON. It was the outcome of developments worked over a period of say 20 years, Mr. Borchardt. I cannot state when it was issued, because it was held in the Patent Office because of the secrecy procedure that the Patent Office followed during the war; but it was about ready to issue early in the war, or I would say shortly before Hurricane Creek was considered or established.

Senator O'MAHONEY. I had the impression, not at all clear, that Alcoa had contended that there really was no patent problem involved in the industry. Am I right about that?

Mr. WILSON. That is true, as far as the smelting plants are concerned. There are no patents, and I think that is probably what you have reference to.

Senator O'MAHONEY. What patents were you referring to?

Mr. STRAUS. As I said, our study showed that the best two plants were the combination of Hurricane Creek and Jones Mills, and therefore the Hurricane Creek patent is involved.

Mr. WILSON. I might also make clear for the record that the combination process which is subject to this patent we have been discussing is only of commercial use in the utilization of low-grade bauxite, and that the normal Bayer process, which is not covered by any patents, is entirely adequate for the use of what heretofore were the commercial grades of bauxite that were used for the manufacture of alumina.

Senator O'MAHONEY. The situation is complicated or has been heretofore by the fact, as I understand it, that bauxite had been the only real source of alumina; is that correct?

Mr. WILSON. You can say not only has been, but up to date still is.

QUESTION DISCUSSED AS TO WHETHER ALUMINUM FROM ORES AND CLAYS CAN BE PRODUCED COMPETITIVELY WITH BAUXITE

Senator O'MAHONEY. Of course, as part of the program for preparing for the war, the Defense Plant Corporation authorized these experimental plants, of which there are four in the country, one in Oregon, one in Utah, one in South Carolina, and one in Wyoming for the production of alumina from domestic alumina clays or ores.

Whether those experiments have proceeded far enough to demonstrate that alumina can be competitively produced from those clays and ores, compared with bauxite, I don't know.

Mr. BORCHARDT. Could I ask the representative of the Surplus Property Administration whether any study has been made of the patent situation in connection with Hurricane Creek?

Mr. MOMENT. Yes; we have asked the RFC to give us the full status of that situation. We were advised a few days ago just what the situation was, and it is substantially as Mr. Wilson has indicated.

It is very important for the record to indicate that the Hurricane Creek plant in the hands of an independent operator must be operated on the basis of this low-grade or medium-grade bauxite and that therefore there is a material question whether the combination processes will be available on terms of reasonable royalty.

The RFC has advised us further that they have been in negotiation with Alcoa for a period of time on the question of terms of licensing and royalties and have been advised that Alcoa does not expect that any serious obstacles will arise but that they would prefer to delay the discussion of the exact terms of royalty, and so on, until the particular lessee or purchaser of a plant enters the discussions jointly with RFC and Alcoa.

Mr. WILSON. On behalf of Alcoa, I don't recognize any limitation that was laid down in any discussion with RFC, but there may have been other discussions with which I am not familiar.

Senator O'MAHONEY. Is there anything more you would like to ask, Mr. Straus?

Mr. STRAUS. No; that is all.

Senator WHERRY. May I ask a question?

Mr. STRAUS. Yes, sir.

Senator WHERRY. Outside of this patent process for low-grade bauxite, you stated in answer to the chairman's question as to what you thought might be a program that we should dispose of these plants if we could without the payment of subsidies; and if I got your answer correctly, you said, "and without aluminum being dumped on the market by the Government."

Have you read the recommendations of the Surplus Property Administrator?

Mr. STRAUS. Yes; I have.

Senator WHERRY. Do you agree with those recommendations?

Mr. STRAUS. Well, that is a broad subject; I don't agree with all of them; no.

Senator WHERRY. Did you withdraw your offer or lose interest in purchasing one of these plants, because of the patents alone; or do you mean that you lost interest when the question of subsidies being paid by the Government entered into it, and also in that event the Government would have to buy the product and therefore dump it on the market?

Mr. STRAUS. Certainly not on the basis of the patent alone. It was the general survey of the industry and what it would require in the way of know-how and eventual capital in order to make it an integrated industry, which is why we lost considerable interest.

The Surplus Property advised us that it would be difficult to get the know-how and we then studied the question of what would happen after the 5-year period which is what we were more interested in than anything else, and in that case we felt that we would have to be prepared to enter the business on such a very large scale that it would require a major change in our general corporate set-up.

Senator WHERRY. The subsidies, then, didn't affect you?

Mr. STRAUS. Only insofar as we did not look at the matter at all on the basis of going on with subsidies, and we would not care to go in on that basis.

Senator WHERRY. Would it affect you in the purchase of any of these plants if the Government did have a policy of disposing of the plants on a lease basis, whether they would buy a definite amount of the product?

Mr. STRAUS. No; we wouldn't.

Senator WHERRY. You would not want to go in on that basis?

Mr. STRAUS. No.

Senator WHERRY. That is all.

Senator O'MAHONEY. And no such proposal was made to you?

Mr. STRAUS. No, sir.

Senator WHERRY. I said "if."

Senator O'MAHONEY. I want to be sure that no such proposal was made.

Senator WHERRY. I want to be sure that if such a proposal was made and consummated, you would not go in business?

Mr. STRAUS. That is right.

Senator O'MAHONEY. That proposal was made by the Reynolds Co. and not by the Government.

Are there any other questions?

Mr. MOMENT. The Surplus Property Administration is very much interested, Mr. Straus, if all other conditions were satisfactory to you, except this one question: Would you be interested in going into the aluminum business if you had to buy your alumina from another source as a permanent operation, producing pig aluminum with alumina supplied by another source?

Mr. STRAUS. No.

Senator O'MAHONEY. That is why you want the Hurricane plant in connection with the Jones Mills plant?

Mr. STRAUS. That is right.

Senator WHERRY. Were there any other plants in this list we are talking about selling which would interest you, except this Hurricane and Jones Mills plant?

Mr. STRAUS. No; those were the two we felt under proper conditions would be the lowest cost producers.

Senator WHERRY. And you felt any others you would take on would be more difficult to operate and make a profit?

Mr. STRAUS. That is right.

Senator O'MAHONEY. We are very happy to have had you here, Mr. Straus. I am very mindful of the fact that in answer to one of my questions you said that you were not prepared now to suggest to the committee what policy should be followed to promote the disposal of these plants. If, in your further consideration of the matter, you can make any suggestions to the committee in response to that query, I am sure it would be very welcome.

Mr. STRAUS. I would be very happy to do so.

Senator O'MAHONEY. Thank you very much.

FUTURE PROSPECTS OF FABRICATION PLANT AT PHOENIX, ARIZ.

Senator HAYDEN. Mr. Chairman, since we have departed from the regular routine I would like to place in the record at this time a letter from the Phoenix Chamber of Commerce relating to a fabricating plant, one of the fifty-odd which have been mentioned, built at the cost of some $35,000,000 at Phoenix.

In substance, they have asked me to present to the committee the urgency of the disposal and peacetime operation of the aluminum extrusion plant located near Phoenix, Ariz. There are resolutions which come from seven chambers of commerce, six cities and towns, and the labor union represented in the former operation of the plant.

The letter states, in part:

> We are informed that the Aluminum Co. of America, if allowed, will bid on this plant for peacetime operation. Also, we find, from the proceedings of the Senate Committee Investigating the National Defense Program of August 21, 1945, in Spokane, no offer of any other company to operate the Phoenix plant.

Then they make the contention that being a fabricating plant the monopoly feature would not affect the situation.

I would like to ask, Mr. Wilson, whether your company would be interested in continuing the operations of that plant?

Mr. WILSON. Senator Hayden, I don't think Alcoa can make an answer in picking out piecemeal any one of these plants, such as this Phoenix plant, which produces extrusions and tubing, until we know to what extent we are going to be permitted to get any of the plants in any and all phases of the aluminum industry that are available from the Government-owned plants.

I do know that the experience the Aluminum Co. had in the Phoenix district at the time of construction and operation of this plant was a very happy one, Senator. We found that the community was one that was a very satisfactory one in which to operate.

Senator HAYDEN. Evidently, you made a good impression, because they argue throughout these resolutions adopted by the various chambers of commerce, that you have the know-how, that you did get along well, and they would like to see you have an opportunity to acquire the plant. I think so far as the Surplus Property organization is concerned they are in the same fix that you are. They couldn't say that they would make your offer to buy this plant as a separate entity without understanding the entire situation, so it is perfectly clear there must be a solution of the general problem before particulars can be undertaken.

Mr. WILSON. I think that is right.

Senator HAYDEN. Mr. Chairman, with your permission, I will ask that these resolutions appear in the record, together with the covering letter.

Senator O'MAHONEY. They may be received; and thank you very much, Senator.

(The covering letter and resolutions referred to read as follows:)

PHOENIX CHAMBER OF COMMERCE,
Phoenix, Ariz., October 13, 1945.

Subject: Sale of Federal-owned aluminum plants.

MILITARY AFFAIRS SUBCOMMITTEE ON SURPLUS PROPERTY DISPOSAL,
United States Senate, Washington, D. C.

(Attention Senator O'Mahoney, chairman.)

GENTLEMEN: We are asking our Senator, Carl Hayden, to present to you, in this letter and in copies of resolutions and editorial comment attached, the urgency of the disposal and peacetime operation of the aluminum extrusion plant located near Phoenix, Ariz. These resolutions come from seven chambers of commerce, six cities and towns, and the labor union represented in the former operation of the plant.

We are informed that the Aluminum Co. of America, if allowed, will bid on this plant for peacetime operation. Also, we find, from the proceedings of the Senate Committee Investigating the National Defense Program of August 21, 1945, in Spokane, no offer of any other company to operate the Phoenix plant.

We have been informed that there will be offers to buy and remove the equipment, and lease or sell the buildings to others for some other purpose. The people represented in the resolutions from Maricopa County do not wish to see the latter happen. They believe that the Government will receive more from a sale which will result in the operation of this plant for the purposes for which it was built, and that the community will derive greater reemployment benefit therefrom.

The contention that Alcoa is a monopoly, we believe, does not hold in this case. From what we can gather from the opinions of the district court and the circuit court of appeals in the recent Alcoa case, fabrication cannot be in monopoly if the ingot-making plants are not in monopoly. The Government holds over 50 percent of the ingot-making capacity facilities, which gives it control that will prevent a monopoly of ingot-making plants. The fabrication plants sell to the general business world and there is no continuous manufacturing chain beyond fabrication held by Alcoa.

The operation of the Phoenix plant would give this area access to products which would create and enlarge small-business manufacturing. Also, such operation would give work to the many citizens who were trained for jobs in this plant. This particular county expects the return of over 85,000 veterans who will be seeking jobs. We are in dire need of the operation of such a plant in order to give these veterans work.

We are not particularly carrying the torch for Alcoa, but we believe that if a company such as this desires to bid, and there is clearly no monopoly issue, it should be allowed the opportunity of bidding in order to bring out other firm offers for the operation of the plant in Phoenix, Ariz.

We respectfully submit these ideas so that your committee may be informed as to the overwhelming desire of the citizens of this area.

Very truly yours,
A. F. MORIARTY,
Chairman, Industrial Committee, Phoenix Chamber of Commerce.

RESOLUTION No. 9296 OF THE COMMISSION OF THE CITY OF PHOENIX, ARIZ.

Whereas with the long-prayed-for ending of World War II it became necessary to discontinue the operations then conducted in the existing war plants and primary air training fields located in Maricopa County, Ariz., immediately adjacent to the city of Phoenix; and

Whereas the closing of such great war industries, among which are listed the plants of the Aluminum Co. of America, Airesearch Manufacturing Co. and Goodyear Aircraft Corp., has caused widespread unemployment throughout the metropolitan area of the city of Phoenix to such an extent that an emergency in relation thereto now exists; and

Whereas such a state of indecision now appears to exist with reference to the disposition of such plants and airfields that industrial concerns which might readily and immediately utilize their facilities are precluded from in any manner securing possession thereof for reconversion to peacetime industry; and

Whereas this commission is reliably informed and believes that private industrial concerns, including, but not limited to the operators of the above-named plants at the time of their shut-down, are ready, willing, and able to acquire such plants under reasonable, certain, and well-defined operating conditions, and immediately reopen the same for permanent peacetime production; and

Whereas this commission is of the opinion that it would be to the best interests of the Nation as a whole if a clearly defined policy for the final disposition of all war plants, including those above mentioned, were immediately determined by those officials having jurisdiction thereof to the end that such plants and their equipment be immediately utilized in the tremendous task of reconversion and the relief of unemployment; and

Whereas this commission is also of the opinion that a similar policy should be immediately determined of the final disposition of primary training air fields in this locality designated as Thunderbird Field No. 1, Thunderbird Field No. 2 and Falcon Field: Now, therefore be it

Resolved by the commission of the city of Phoenix as follows:

SECTION 1. That this commission place itself on record as respectfully requesting those officials of Reconstruction Finance Corporation charged with such responsibility to take immediate steps to clarify the present situation by determining a clear-cut, definite policy for the immediate and final disposition of these plants and air fields to private industrial concerns in order that their facilities may again be placed in operation and that their former employees may help in the winning of the peace as they helped in the winning of the war.

Passed by the commission of the city of Phoenix this 11th day of September 1945.

Approved by the mayor this 11th day of September 1945.

BERT FLEMING,
Mayor.

Attest:
JOS. C. FURST,
City Clerk.

Approved as to form:
RICHARD MINNE,
City Attorney.

PHOENIX CHAMBER OF COMMERCE

PHOENIX, ARIZ.

RESOLUTION

Whereas it is of the utmost importance that the cost of the war be met through production and jobs of private enterprise if our economy is to be preserved and widespread unemployment avoided; and

Whereas the majority of the workers in the three large war plants and smaller plants in and around Phoenix are citizens of this area who had been trained in the skills needed in these plants and are now out of employment; and

Whereas the operators of the three major war plants in the Salt River Valley have indicated their desire to be permitted to acquire said plants from the Federal Government and to operate them in peacetime production; and

Whereas there exist four primary air fields in the same area, which area is ideally adapted for air training and for the development of aviation industry to

the fullest extent, and it is quite possible that these primary air fields may be sold for other purposes, such as winter resorts, air-training colleges, or private-training fields; and

Whereas no clear policy for the disposal of at least one of the war plants and of the air fields has been announced by the agencies of the Federal Government holding such responsibility; and the Phoenix Alcoa plant, being one of fabrication, is not involved in the controversy about almuinum ingots that is now going on and holding up the sale of the Phoenix plant: Now, therefore, be it

Resolved, By the executive committee of the Phoenix Chamber of Commerce that the proper Federal agencies and authorities, particularly the Reconstruction Finance Corporation and the Surplus Property Board, be respectfully urged to take immediate steps to provide for the sale of said war plants and primary air fields to private operators and that bids be invited without delay to the end that these facilities may be permanently acquired by responsible operators to be operated in this community and placed in production as soon as possible; and that the committee further submits that, in the adoption of this resolution, it is convinced that it is expressing the desires of the 900 members of the Phoenix Chamber of Commerce and of the public of the community, all of whom are anxious to have these plants permitted to resume production as soon as possible rather than to experience a protracted period of waiting for the uncertainties involved in some untried method of leasing.

Unanimously adopted at Phoenix, Ariz., this 6th day of September 1945.

H. R. ASKINS,
President.
LEWIS E. HAAS,
General Manager.

PHOENIX JUNIOR CHAMBER OF COMMERCE

PHOENIX, ARIZ.

RESOLUTION

Whereas the healthful and efficient climate of central Arizona led to the establishment of new war plants, both large and small, and to the creation of many flying fields as part of the war effort; and

Whereas to staff these facilities there came into the Phoenix metropolitan area a number of workers who, together with large numbers of local citizens, were specially trained for the operation of these various facilities; and

Whereas a recent survey has conclusively demonstrated that only 9 percent of those workers who are in-migrants to this area have returned or have plans to return to their former homes and the remaining 91 percent together with those already living in the Phoenix metropolitan area, will produce a large percentage of industrial unemployment; and

Whereas said employment situation has been rendered more critical by the influx into the Phoenix metropolitan area of many veterans of World War II; and

Whereas it is essential to the economic and social welfare of the Phoenix metropolitan area that war facilities be adapted for peacetime production; and

Whereas the wartime facilities, including large and small plants and air-training fields, are readily capable of being converted to peacetime production, and in view of the desire of the wartime operators of said facilities and other persons to immediately lease or buy them for peacetime production: Now, therebore, be it

Resolved, by the board of directors of the Phoenix Junior Chamber of Commerce, That the Reconstruction Finance Corporation, the Defense Plant Corporation, the Surplus Property Board, and any other Federal agency having jurisdiction in the matter, be requested to take prompt action to the end that these wartime facilities are utilized for peacetime production by working out proper plans and procedures for the disposition of said wartime facilities either on a lease or purchase basis to those companies presently operating the facilities or to other satisfactory and competent management; and that the Phoenix Junior Chamber of Commerce strongly feels that, unless the disposition of these plants

is prosecuted with the same speed and urgency that were used in the war efforts, the investment of the Government in these facilities will be dissipated by letting them stand idle and the Phoenix metropolitan area will suffer a period of critical unemployment.

Unanimously adopted at Phoenix, Ariz., September 10, for the Phoenix Junior Chamber of Commerce.

JOHN R. WILLIAMS,
President.
MERLYN F. TALBOT,
Secretary.

RESOLUTION NO. 5. RESOLUTION ON OPERATION OF ALCOA ALUMINUM PLANT IN PEACETIME

(Resolution adopted by Local 345, United Steelworkers of America)

Whereas the Aluminum Co. of America (Phoenix Works) was requested by the United States Government to operate this plant for the purpose of extruding huge quantities of aluminum critically needed for the successful prosecution of the war; and

Whereas the gigantic task of completing such a program warranted an extremely larger number of employees than was immediately available in the Phoenix labor market area, therefore causing the State war manpower commission and Alcoa to encourage hundreds of families to move to Phoenix and help produce this wanton metal; and

Whereas hundreds of these people have permanently established themselves as residents of Phoenix and that during the past 2 and 3 years have trained themselves for jobs in this comparatively new industry; and

Whereas hundreds of people, permanent residents of Phoenix for years before the war, formerly employed by WPA, have since then been trained for work on aluminum; and

Whereas immediately after VJ-day, because of the cut-back in war orders and the fact that this was a Government-owned plant, approximately 3,000 employees are in the process of a lay-off, therefore virtually forcing these people to go on dole, become a public expense, and greatly reduce the living standards of this community; and

Whereas the Government has approximately $65,000,000 invested in this plant, including equipment. And it would cost the Government many more thousands of dollars to dismantle, or put this plant in stand-by condition, thus benefiting no one; and

Whereas the Aluminum Co. of America, through their chairman of the board, Arthur B. Davis, has expressed willingness to either purchase or lease this plant, if proper arrangements can be made with the Surplus Property Board and other Government officials; and

Whereas it is imperative as a step toward winning the peace that a full employment program be achieved; and

Whereas the sale of this plant to Alcoa would be a step in the right direction for full employment, development of the West, and an asset to Arizona and its thousands of unemployed war workers: Now, therefore, be it

Resolved, That the members of Local 345, United Steelworkers of America, CIO, urge Mr. W. Stuart Symington, Chairman of the Surplus Property Board, and his committee; Mr. Sam Husbands, a director of Reconstruction Finance Corporation; Mr. Tom Clark, United States Attorney General; Senators Carl Hayden and Ernest McFarland; Congressman Richard Harless and John Murdock, to do everything possible that would enable the Aluminum Co. of America or some other company to purchase and operate the Phoenix aluminum plant.

Passed by Local 345, United Steelworkers of America, regular meeting, Phoenix, Ariz., September 8, 1945.

Concurred in by Arizona State CIO Industrial Union Council in Miami, Ariz., September 10, 1945.

CHANDLER, ARIZ., *September 11, 1945.*

RESOLUTION

Whereas there has been developed in the Salt River Valley of Arizona several industries, such as the Aluminum Co. of America, the Airesearch Manufacturing Co., and the Goodyear Aircraft Corp., all intimately related and necessary to the future of the aviation industry in this section of the country; and

Whereas the operation of these plants in Arizona is very vital to the existing unemployment emergency in this area; and

Whereas the operators of these plants have indicated their desire to acquire said plants under certain conditions: Now, therefore, be it

Resolved, That it is the hope and earnest desire of the Common Council of the Town of Chandler, Ariz., that the Surplus Property Board entertain one firm bid for the acquisition of these plants, that they may be put into operation at the earliest possible date.

CERTIFICATE

I, N. T. Roach, clerk of the town of Chandler, do hereby certify that the foregoing resolution was regularly passed at a regular meeting of the Common Council of the Town of Chandler held on the 10th day of September 1945, at which said meeting a quorum of the members of said common council was present and voting thereat.

In witness whereof, I have set my hand and affixed the corporate seal of the town of Chandler, this 11th day of September 1945.

[SEAL]

N. T. ROACH,
Clerk of the Town of Chandler.

CHANDLER CHAMBER OF COMMERCE,
Chandler, Ariz., September 11, 1945.

Mr. SAMUEL HUSBANDS,
Chairman, Reconstruction Finance Corporation,
Washington, D. C.

DEAR SIR: We, the members of the Chandler Chamber of Commerce, in regular meeting, do submit the following facts on why we believe that the existing war plants in this district should be operated as peacetime industries:

In the Salt River Valley there are certain conditions which do not exist in other parts of the country, namely, our moderate climate for so many months of the year should make this a desirable location for certain industries to take over and either lease or buy these plants. We maintain, due to our moderate climate and adequate cooling systems in the short time needed, that working people can live here cheaper and better than in other parts of the country. The Salt River Valley has a year-around growing season, which makes it possible for working men and women to grow gardens and buy cheap citrus products. We maintain, due to conditions in the Salt River Valley, working people do not need as much fuel and clothing or any number of items that they do need in other parts of our country.

We hereby petition you to act as quickly as possible to convert these plants, which are now either idle or partially idle, into a peacetime industry, so that it will not only benefit the State of Arizona but the other 47 States as well.

PAUL B. BEVILLE, Jr., *President.*
JOHN V. MURPHY, *Secretary.*

TEMPE CHAMBER OF COMMERCE

TEMPE, ARIZ.

RESOLUTION

Whereas the Nation's greatest single problem today is rapid reconversion to peacetime production so that American workers, American industry, and especially the men who fought so well for victory, may again thrive and have jobs under the American system of free enterprise; and

Whereas plants built by the United States Government and now in custody of the Surplus Property Board in this area, namely, the Airesearch plant, the Goodyear aircraft plant, and the Alcoa aluminum extrusion plant, are now idle; and

Whereas these plants served well and produced abundantly in their allotted war tasks; and

Whereas their cost was repaid in the speed and quality of their production; and

Whereas they can be readily converted to industrial production if leased or sold to manufacturers; and

Whereas piecemeal distribution or sale of equipment contained in the plants would result in a great reduction of their value as peacetime industrial plants; and

Whereas certain firms are interested in acquiring these plants by firm offers or competitive bidding; and

Whereas their operation would add substantially to the industrial pay rolls in this area and bring greater employment stability and business prosperity to our State: Therefore be it

Resolved, That the Chamber of Commerce of the City of Tempe, Ariz., urges appropriate officials to immediately take whatever steps are necessary to get these plants back into production as soon as possible, to the end that workers who toiled faithfully during the war years and the returning veterans may find, indeed, that a better world is the result of the many wartime sacrifices.

PAUL V. MCCAW,
President, Tempe Chamber of Commerce.

RESOLUTION

Whereas there exists in the county of Maricopa, and especially in the Salt River Valley in Phoenix and vicinity, an abnormal degree of unemployment; and

Whereas this unemployment is largely due to two factors, viz, the closing down of all governmental plants which have been furthering the war effort and a large influx of returning war veterans: Be it therefore

Resolved by the Common Council of the City of Tempe, That these circumstances be brought to the attention of the proper authorities at once, with an appeal for the immediate sale of these plants to private industry in order to alleviate a critical labor situation.

W. W. COLE, *Mayor.*

I hereby certify the above to be a true and correct copy of a resolution passed at a regular meeting of the common council held at Tempe, Ariz., September 13, 1945.

Dated at Tempe, Ariz., this 14th day of September 1945.

[SEAL]

DILLWORTH BAIRD, *City Clerk.*

RESOLUTION

MESA, ARIZ.

Whereas the city of Mesa is the owner of the real property in Falcon Field, Mesa, Ariz., and has invested considerable funds therein; and

Whereas the city of Mesa is the owner of the real property in Williams Field, Chandler, Ariz., and has invested considerable funds therein; and

Whereas many hundreds of the civilian employees at said fields and at the Salt River Valley industrial war plants have for the past few years resided in the city of Mesa; and

Whereas for the aforesaid reasons the city of Mesa is vitally interested in the disposition to be made of said fields, said war plants, and the other airfields in the Salt River Valley: Now, therefore, be it

Resolved by the City Council of the City of Mesa, Ariz., as follows:

SECTION 1. That Falcon Field and the other contract airfields in the Salt River Valley be not dismantled or sold to speculators, but that said fields be kept intact and that the Surplus Property Board enter into negotiations with interested purchasers, including the city of Mesa, interested in aviation as a business, and that disposal of the plants be made only upon the condition that the airfields be used as such by the purchasers or be maintained for some other useful and worth-while purpose.

SEC. 2. That in order avoid a serious unemployment problem and to insure the industrial stability of the city of Mesa and the Salt River Valley, the Surplus Property Board should forthwith adopt the policy of providing for the acquisition of the war plants in the valley by the present operators thereof, or by other industrial concerns who would agree to keep the plants intact and in operation.

Passed and adopted at a meeting of the City Council of the City of Mesa, Ariz., this 12th day of September 1945.

[SEAL] Z. PEARCE, *Mayor.*

Attest:

J. EDWIN MILLER, *City Clerk.*

MESA CHAMBER OF COMMERCE

MESA, ARIZ.

RESOLUTION

Whereas the city of Mesa is directly concerned as to what disposition may be made of the contract airfields located in the Salt River Valley (Falcon Field, Thunderbird I, and Thunderbird II), and more particularly as regards the disposition of Falcon Field, which is located in Mesa, and the land for which is owned by the city of Mesa; and

Whereas the closing of the Salt River Valley industrial defense plants, where thousands of civilians were employed in the production of war materials, together with the closing of the contract airfields mentioned above, plus the curtailment of civilian employment at Williams and Luke Army Airfields, threatens the whole Salt River Valley with a serious problem of unemployment: Now, therefore, be it

Resolved, That the Mesa Chamber of Commerce urges that Falcon Field and Thunderbird I be not sold to speculators to be dismantled, but that the buildings be left intact and that negotiations be instituted by the Surplus Properties Board with the interested cities or with individuals or concerns interested in aviation as a business, and that wherever possible deals be consummated whereby the facilities of the plants herein mentioned can be put to a useful purpose, either as city or commercial airports; and be it further

Resolved, That a serious unemployment problem can be avoided and the industrial stability of the Salt River Valley can be protected through the adoption by the Surplus Properties Board of a policy which would provide for the acquisition of the plants operated by Aluminum Co. of America, Airesearch Manufacturing Co., and Goodyear Aircraft Corp. by present operators or other industrial concerns engaged in similar operation who would agree to keep buildings and equipment intact and the plants in operation here, where a source of employment is so badly needed.

Adopted at a regular meeting of the board of directors of the Mesa Chamber of Commerce this 12th day of September 1945.

WM. J. ASHER, *President.*

Attest:

WM. MANHENNET, *Secretary.*

TOWN OF BUCKEYE

BUCKEYE, ARIZ.

RESOLUTION NO. 62

Whereas the common council of the town of Buckeye is cognizant of the fact that there now exists in the community a state of unemployment caused largely by the closing of the three major industrial plants in Maricopa County, namely, Goodyear Aircraft Corp., Aluminum Co. of America, and Airesearch Manufacturing Co.; and

Whereas the common council is reliably informed that these three companies are desirous of acquiring the plants which they have been operating so that they may start production in their respective fields; and

Whereas the common council believes that the unemployment problem in this area would best be solved if the Government would immediately take steps to sell these plants to those operators who have expressed the desire to acquire them: Now, therefore, be it hereby

Resolved by the Common Council of the Town of Buckeye, That the Surplus Property Board, or such other Government agency with authority, be, and the same is hereby, urged to adopt a plan of accepting bids from and disposing of these industrial plants to those operators who are interested, and request is hereby made that such action be taken as soon as practicable.

Adopted by the common council and approved by the mayor this 7th day of September 1945.

[SEAL] OTTO PAULSON, *Mayor.*

Attest:

G. M. FRY, *Clerk.*

BUCKEYE CHAMBER OF COMMERCE

BUCKEYE, ARIZ.

RESOLUTION

Whereas information submitted to the Buckeye Chamber of Commerce by its committee on employment discloses that in the vicinity of Buckeye and elsewhere in Maricopa County there are a large number of unemployed workers and that said unemployment is a result of the closing down of Goodyear Aircraft Corp., Airesearch Manufacturing Co., and Aluminum Co. of America plants within the county; and

Whereas it is the opinion of the membership of the Buckeye Chamber of Commerce that this state of unemployment would, to a great extent, be relieved by the operation of these plants by the companies which have heretofore operated them; and

Whereas this body has been informed that the above-named companies are interested in acquiring the plants for the purpose of manufacturing in their respective fields; and

Whereas this body is of the opinion that such a plan would be for the welfare of the community, the State of Arizona, and the entire Nation: Now, therefore, it is hereby

Resolved, That the Surplus Property Board be, and the same is hereby, petitioned to adopt, as soon as practicable, a plan of disposing of these industrial plants to those interests which are desirous of acquiring and operating them.

Passed in regular meeting by the Buckeye Chamber of Commerce this 12th day of September 1945.

G. M. FRY, *President.*

Attest:

R. A. ADAMS, *Secretary.*

PEORIA CHAMBER OF COMMERCE, INC.

PEORIA, ARIZ.

RESOLUTION

Whereas it is of the utmost importance that the cost of the war be met through production and jobs of private enterprise if our economy is to be preserved and widespread unemployment avoided; and

Whereas the majority of the workers in the three large war plants and smaller plants are citizens of this area who had been trained in the skills needed in these plants and are now out of employment; and

Whereas the operators of the three major plants in the Salt River Valley have indicated their desire to be permitted to acquire said plants from the Federal Government and to operate them in peacetime production; and

Whereas there exist four primary airfields in the same area, which area is ideally adapted for air training and for the development of aviation industry

to the fullest extent; and it is quite possible that these primary airfields may be sold for other purposes, such as winter resorts, air-training colleges, or private training fields; and

Whereas no clear policy for the disposal of at least one of the war plants and of the airfields has been announced by the agencies of the Federal Government holding such responsibility; and the Phoenix Alcoa plant, being one of fabrication, is not involved in the controversy about aluminum ingots that is now going on and holding up the sale of the Phoenix plant: Now, therefore be it

Resolved by the Peoria Chamber of Commerce, That the proper Federal agencies and authorities, particularly the Reconstruction Finance Corporation and the Surplus Property Board, be respectfully urged to take immediate steps to provide fo the sale of said war plants and primary airfields to private operators and that bids be invited without delay, to the end that these facilities may be permanently acquired by responsible operators to be operated in this community and placed in production as soon as possible; and that the Peoria Chamber of Commerce further submits that, in the adoption of the resolution, it is convinced that it is expressing the desires of the Peoria Chamber of Commerce and of the public of the community, all of whom are anxious to have these plants permitted to resume production as soon as possible rather than to experience a protracted period of waiting for the uncertainties involved in some untried method of leasing.

Unanimously adopted at Peoria, Ariz., this the 10th day of September 1945.

T. F. THURSTON, *Secretary.*

GILBERT, ARIZ., *September 14, 1945.*

The RECONSTRUCTION FINANCE CORPORATION,
Washington, D. C.

(Attention: Samuel Husband, chairman.)

GENTLEMEN: The Gilbert community feels the reaction from the reduction of employment due to the closing of Falcon Field, the curtailment of activities at Williams Field, and the heavy lay-offs at the various valley defense plants engaged in war production.

The climate in the Salt River Valley will cause many former war workers and veterans to come here to live and seek work. It becomes very apparent that unless the defense plants can be continued in operation the problem of unemployment is going to become a very serious matter in this section of the country.

We sincerely believe that if it is at all possible, some arrangement should be worked out whereby the present operations of the Aluminum Co. of America, Airesearch Manufacturing Co., and Goodyear Aircraft Corp. would acquire ownership of their respective plants and would keep them in operation here and thereby meet the need of unemployment of the people of the Salt River Valley.

Very truly yours,

GILBERT CITY COUNCIL,
By M. S. VAUGHN, *Mayor.*

[Editorial from the Phoenix (Ariz.) Republic, September 5, 1945]

PHOENIX SHOULD NOT BE PENALIZED BY PREJUDICIAL POLICIES

Considerable interest has been aroused by announcement from the Committee on Economic Development that the Aluminum Co. of America would make a proposal to the Government to lease or buy the huge wartime aluminum production plant located here.

The committee is to be congratulated on the success of what efforts it may have made toward peacetime operation of the aluminum plant and other wartime industries here. The committee worked so quietly that the public has not been informed of the progress being made and there was no realization of how much work had been accomplished.

But before our citizens settle back complacently in the assumption that resumption of work at the aluminum plant is an assured fact, it would be wise to consider whether or not the praiseworthy work done by the committee should not be backed by all the power the community is able to exert.

In the September 3 issue of a conservative, usually accurate news weekly, under the heading "Washington Trends," the statement is made in reference to

governmental affairs, that: "It is settled policy that the Aluminum Co. of America will get no governmental war-built aluminum plants."

So far as known, no other producer of aluminum products has evidenced an interest in acquiring the plant here, either by lease or purchase. The only other proposals, so far as disclosed, have been for certain equipment which might mean the dismantling of the plant and making it unfit for aluminum production.

If, because of prejudice against Alcoa, or to arbitrarily carry out a fixed policy with consistency, the administration wrecks the opportunity of this community to possess a great industry and at the same time junks a taxpayers' investment of many millions that may be converted to employment and productive needs, then economic and governmental justice will not prevail.

To protect the interests not only of Phoenix but of the State and the entire Nation, it behooves citizens of this community, particularly organized groups such as the directors of the chamber of commerce, or a special task committee, to join hands with the Committee on Economic Development and other bodies to work and study the situation and to bombard the Surplus Property Board, our Representatives in Congress, and other governmental officials with forceful expressions against the unfairness to Arizona of an inflexible policy aimed at the Aluminum Co. of America. Action is earnestly necessary.

It will be far simpler to do something to hold the important industries Arizona now has than to obtain others as substantial to take their places.

[Editorial from the Phoenix (Ariz.) Gazette, September 5, 1945]

CUT THE RED TAPE; OPEN ALCOA PLANT

The people of Phoenix think it about time that our congressional delegation build a fire under those Government officials in Washington who are delaying the disposal of surplus war plants.

The Aluminum Co. of America is ready with a proposal to lease or purchase the Phoenix works which turned out such vast quantities of aluminum extrusions that aided in crushing our enemies.

This plant easily can be converted—and quickly—into the production of vast amounts of aluminum products so greatly in demand today by millions of our citizens.

Here is a case where private enterprise is ready to go. It isn't asking that the Government underwrite the operation of the local plant and pay losses if there should be such.

Here is a case where private enterprise is being forced to mark time by slow-acting Washington officials. The problem seems simple. The Government has no further use for this plant. It wants to dispose of it. The Alcoa concern wants to make a proposal. Then why in the name of common sense can't there be speedy action?

It appears there is some fear in Washington that the sale or leasing of this plant to Alcoa might help to create a monopoly. No other aluminum company is interested in the plant. Several firms would like to buy its machinery—if they can get it cheaply—and move it elsewhere. That would make this plant useless to the Nation and private enterprise.

Our Congressmen should tell the Washington officials to forget monopoly so far as the Phoenix plant is concerned. Aluminum monopoly can be controlled in the disposal of aluminum ingot plants. If Alcoa doesn't have a monopoly on ingot production, then there can be no monopoly in aluminum fabrication.

What Phoenix wants, what several thousand aluminum workers want, and what the whole country wants, is the speedy conversion of this plant to peacetime production. Let's have full speed ahead and get on with the job of full production and full employment for a prosperous peacetime eera.

STATEMENT OF I. W. WILSON—Resumed

Mr. WILSON (continuing):

SUBSIDY NO. 3. GOVERNMENT PROCUREMENT OF BAUXITE

The Government is to negotiate for and presumably acquire foreign bauxite on behalf of the operators of Government plants. In the interim, the Government stock pile of bauxite at Hurricane Creek is to be made available to the lessee

of that plant at prices equal to, or possibly lower, than Alcoa's cost of similar raw materials. Bauxite is the raw material from which aluminum is extracted. The proposed subsidy proceeds on the premise that Alcoa controls most of the domestic reserves and can operate from this source, while competitors must locate foreign sources. It is assumed that this will involve costs higher than Alcoa's.

This subsidy necessarily presupposes that the Government will fix the sales price of bauxite to meet the alleged lower costs of Alcoa's bauxite, through its sales from stock pile or from foreign sources which it acquires or makes available. This control will largely influence the price of aluminum.

This subsidy is unnecessary and harmful.

1. Bauxite is scarce in the United States but is found in practically inexhaustible quantities in many foreign countries from which it can be shipped to the United States on a basis competitive with domestic bauxite.

2. Alcoa's ownership of aluminum-grade bauxite deposits in the United States in 1940 constituted less than an 8-year supply at Alcoa's 1939 rate of production of aluminum. This small reserve has been so seriously depleted by the extraordinary requirements of war that, as is shown in the report, the domestic bauxite reserves of commercial grade approximate only a 2-year supply for peak war requirements, except as this period can be extended a short further period by utilizing the Sinter process developed by Alcoa. Alcoa owned less than half of the small quantity of known deposits of aluminum-grade bauxite in the United States in 1940. The figures in the report show that if Alcoa owned all of the bauxite in the United States—and it owns less than half—this would amount to only 3 percent of the known world bauxite reserves. The figures in the report also show that if Alcoa owned all of the bauxite in Dutch Guiana—and it holds merely a mining concession on a portion of such reserves—this would amount to only 5 percent of the known world reserves. Alcoa owns no bauxite anywhere else.

3. The Reynolds Metals Co., which did not go into the aluminum smelting business until 1941, has already obtained a 100-year supply of bauxite.

4. For many years Alcoa has been using more than 50 percent of imported foreign bauxite because of the approaching depletion of domestic reserves. The report acknowledges that high-grade bauxite "would be accessible to new producers from many parts of the world." Why the Government must find bauxite for new competitors, in contrast with the private initiative shown by Reynolds Metals Co. and Alcoa and in the face of the acknowledged fact that bauxite is found in abundant quantities in almost every part of the world except the United States, is hard to explain.

5. There already exists a Government stock pile of 2,800,000 tons of Government-owned bauxite at Hurricane Creek, and this can be supplemented in the next few years by at least 5,000,000 tons of additional bauxite through the Independent Bauxite Producers of Arkansas, a quantity sufficient to run Hurricane Creek for 16 years at 25 percent of capacity, which is your estimate of what is needed. Why, then, this claim of shortage and promise of subsidy?

6. Without governmental intervention, a new producer will be in the same position as Alcoa—domestic reserves are insufficient, but foreign bauxite is readily available on a competitive basis.

7. The ability of Reynolds Metals Co. to obtain a 100-year supply of bauxite in a short period of time is a far more persuasive argument with which to sell a Government-owned aluminum smelting plant or an alumina works than the dreary picture of operation from a Government stock pile supplemented by governmentally obtained foreign bauxite with all of the attendant price controls, uncertainties, and irritations that go with the substitution of a bureaucracy for private initiative. The arguments of scarcity and of Alcoa's dominance in the bauxite field are pure bugaboo, as the courts concluded in the antitrust case and as the statistics in the Board's report reveal.

SUBSIDY NO. 4. THE SUBSIDIZED MANUFACTURE OF ALUMINA FOR SALE AT PRICES EQUAL TO OR LOWER THAN ALCOA'S COST OF MANUFACTURE.

It is proposed that the Government-owned Hurricane Creek alumina plant be offered only to a competitor of Alcoa, and on terms that require the sale of alumina to the operators of Government plants at prices competitive with Alcoa's costs of manufacture. It is estimated that this will require sales at or near the cost of manufacture. It may require sales below cost. In either event, it depends upon a subsidized operation of the Hurricane Creek plant, under which the Reconstruction Finance Corporation will pay the operator of Hurricane Creek whatever fee or profit is necessary to induce him to sell alumina at or below Alcoa's cost of manufacture.

Dr. ANDERSON. May I interrupt? I would like, Mr. Chairman, to ask the Surplus Property Board whether this is their intepretation of their own statement, because I understand that is in considerable question.

Mr. MOMENT. The Alcoa statement is that we propose to subsidize the manufacture of alumina at prices equal to or lower than Alcoa's coast of manufacture. The actual language in the report is given on pages 44 and 51 of the printed copy and does not quite correspond.

It states on page 44, the bottom of the page:

> Fortunately, the operator of Hurricane Creek can sell to others at or near cost—

that means the Hurricane Creek cost, not Alcoa's cost—

> because the larger the output the lower his average cost.

Furthermore, on page 51, the reference in the middle of the page under "Alumina plants" is:

> Hurricane Creek will be offered to a competitor of Alcoa under terms that guarantee the sale of alumina to others on a basis assuring a competitive price.

That language was drawn up with reference to the earlier language that would be based on the costs of production at Hurricane Creek and not on the costs of production at any Alcoa alumina plant.

Mr. HICKMAN. What does "competitive price" mean?

Mr. MOMENT. Any buyer of alumina from your Hurricane Creek would be able to get it close to the cost of production at Hurricane Creek, so that he could compete with the owner or operator of the Hurricane Creek plant. That was a critical point, because we have estimated elsewhere in our report that the costs of production at Hurricane Creek would be competitive with Alcoa.

EFFORTS TO SELL PLANTS CONTEMPLATED ON BASIS OF ASSURING COMPETITIVE PRICE FOR PRODUCT

Senator O'MAHONEY. I might remark here that on reading that my interpretation of it was, and I hope I am correct in that, that what was meant by the language under terms that guarantee the sale of alumina to others on the basis of assuring a competitive price, meant that you would require a contract by which the purchaser would not enter into any arrangement to fix the price at a high level so as to shut off the opportunity for competitors of Alcoa to buy it at commercially feasible competitive rates.

Mr. MOMENT. That was exactly the meaning. The Hurricane Creek plant was so large that we felt that it would be attractive to a new operator only if he could also, for at least a time, sell some of his output probably to new aluminum producers besides.

Senator O'MAHONEY. Then, it was not intended by the Surplus Property Board to convey the thought which has been drawn by Alcoa that the purpose was to have the Government finance low-cost alumina by taking up losses?

Mr. MOMENT. It was not the intent, if Alcoa's costs were to have been lower than Hurricane Creek's cost, that the Government would have approved a price lower than Hurricane Creek's cost.

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Senator O'MAHONEY. At any rate, it was not intended at all to subsidize prices equal to or lower than Alcoa's cost of manufacture?

Mr. MOMENT. That is correct.

Mr. WILSON. May I refer, Mr. Moment, to the paragraph No. 19 on page 3 of the printed copy, the second sentence of which reads as follows:

> The output of alumina—

speaking now of the Hurricane Creek plant—

> should be made available to other producers taking over Government reduction plants at or near cost in order to permit competition with Alcoa.

Now, with that statement as the objective, I don't see how we figure this other statement that in competition has reference to anything other than the competition with Alcoa, and if they had meant at a profit or at cost, why would that not have been stated instead of "at or near cost"?

At or near cost can in the recommendation to Congress just as well mean below cost as it can mean above cost.

Senator O'MAHONEY. The point I see is that one interpretation is that the recommendation was that the Government should supply funds that would enable the operator of Hurricane Creek to meet Alcoa's price, and the other interpretation that Hurricane Creek was to be made available to a competitive operator on such terms as would enable that operator to carry on in a commercial manner in competition, without the Government putting up cash.

Mr. MOMENT. If I might just comment on that language which Mr. Wilson has read, I regret that it seems a little obscure, but most certainly it meant when it was written at or near the cost of Hurricane Creek's cost of production, and the word "near" was never in the mind of anyone in the Surplus Property Administration in the discussions we had meant to be below cost. I regret that the language is obscure, but that is a fact.

Mr. WILSON. We were limited by not knowing what was in the minds of the staff of the Surplus Property Board.

Senator O'MAHONEY. But you are also, I suppose, at liberty to draw the conclusion which the words themselves conveyed.

Dr. ANDERSON. May I further question Mr. Wilson, then?

Now, that we know what was in the minds of the Surplus Property Board in writing that particular statement and in view of the three references to which our attention has been directed, would you still say that subsidy No. 4, as written in your printed document, stands?

Mr. WILSON. Yes. Is an operator of Hurricane Creek going to operate and sell his product at cost to somebody for somebody else's benefit? It is going to require Government subsidy to get some kind of an operating fee into his hands for him to perform that service for the benefit of somebody else.

Senator O'MAHONEY. Mr. Moment, were you going to make a comment there?

Mr. MOMENT. Well, yes. As you know, in many operations, the larger the production the lower the cost of production. If an operator can increase his scale of output in certain industries by selling a portion of his output to others and reduce his own costs and thereby save money for himself, he has incentive to sell to others at or near that cost because he himself makes savings that he would not otherwise obtain. That is precisely what was meant in this case, and that would not be a subsidy, because in this case we expected that the operator would himself make more money than he otherwise would at lower scales of production.

CAPITAL VALUE OF PLANTS; NECESSITY FOR ENGINEERING APPRAISAL

Senator O'MAHONEY. Let me ask Mr. Wilson this question: Forgetting Hurricane Creek or any specific plant, but remembering that in the construction of war plants the Government, through Defense Plant Corporation, was operating under war conditions, and in many instances paid more for the construction of a plant than would have been expended in normal times—in other words, bearing in mind that the plants with which we are dealing may have cost the Government a good deal more than commercial values would dictate—would you say that it would be a subsidy to small business or to competitive industry if the Government sold such a plant at less than the cost to the Government to build it?

Mr. WILSON. Not at all.

Senator O'MAHONEY. Then where would you draw the line and say that the subsidy began and the Government reduced the price at which it would sell, or less?

Mr. WILSON. We are talking now about the capital value of the plant, are we, Mr. Chairman?

Senator O'MAHONEY. Yes.

Mr. WILSON. The proper capital value of one of these plants should be determined on the basis of an engineering appraisal as to its cost had it been constructed under normal conditions, and that is, as I understand it, a procedure which is being followed by RFC in the evaluation of all of the plants and facilities that they are attempting to sell.

Senator O'MAHONEY. Yesterday I stated that to my mind the primary question which must be answered by the Government in the disposal of any of these plants is simply this: How much is it worth to the people of the United States to establish a free enterprise competitive economy?

In other words, to what extent may the Government, in disposing of these tremendous plants which it has to private enterprise, instead of locking them up or operating them, how far may the Government go in making terms upon which an operation can be commercially successful? Or should the Government stop short at a point which would enable any competitor against a dominant force in the industry to appear?

Mr. WILSON. I see no reason why the Government should not be free to dispose of its property, these plants, in any sound way that will not destroy free competitive enterprise.

Senator O'MAHONEY. So that if the objective is to stimulate free competitive enterprise, not to destroy it, then you have no objection to the granting of liberal terms?

Mr. WILSON. No, if they are sound terms, not at all.

Senator O'MAHONEY. Then the question of course follows as to what sound terms are?

Mr. WILSON. That is right; that is what we are seeking.

Senator O'MAHONEY. Precisely. Perhaps we are not so far apart as we seem with all the heat and fury that has been displayed.

Dr. ANDERSON. I want to get a further clarification, Mr. Wilson, on the point about the way you say the RFC is appraising the peacetime value of these wartime constructed plants.

You said you would think a reasonable procedure would be an engineering appraisal, and I would like to ask the question, for it has occurred many times in our survey of these plants, including the aluminum plants in some instances, that there has been—some say by intent and others say by chance—poor location, poor in terms of postwar use.

How would an engineering appraisal include such a factor as poor location? Would it be necessary to go considerably beyond an engineer's appraisal and have what you would call an economic appraisal of the value of the plant as well?

Mr. WILSON. I would think so, yes; but I think you should start first with an engineering appraisal and then you have something to put your feet on.

Dr. ANDERSON. So you don't want to leave the impression that you would be satisfied to have an engineer go out and appraise these plants, and that you would take his appraised value as the value in peacetime of the plant?

Mr. WILSON. I don't think you could or should.

Senator WHERRY. Could a plant be located, Mr. Wilson, so that it would just be prohibitive to run it at all?

Mr. WILSON. Yes; that is possible.

Senator WHERRY. Are there some of these plants which are so located?

Mr. WILSON. Definitely, but not because of the location, but because at that location no low-cost power is available. In other words, it isn't merely just inherent to that location, but that location does not make available any low-cost power.

Mr. BORCHARDT. Mr. Wilson, could I ask you this:

Do you have any suggestions to be made to the RFC as to how they could go about getting more offers for the operation of those plants on the basis of those sound appraisal principles?

MR. WILSON'S CRITICISM OF SURPLUS PROPERTY BOARD'S REPORT

Mr. WILSON. No; I do not think I do, but without meaning to be critical and with deference to the problem which is a weighty one that they have, I am personally of the opinion that I never saw a salesman start out on a job of selling that he did as poor a job as the Surplus Property report in pointing out everything that they could think of against these plants.

Senator O'MAHONEY. Mr. Moment?

Mr. MOMENT. I might reply to that with the comment that long before this report was written a number of us who were associated with this writing were quite concerned with this problem and did call upon people of the leading private companies in the country in the metallurgical fields to ask them what were the problems confronting them if they were entering the industry. We wanted to know what would be the conditions under which they might be drawn into the industry, and it was the recital of the problems and obstacles out of the amounts of some of the leading private companies in this country that led to the observations and analyses appearing in this report.

Our salesmanship started out in an orthodox manner, but we ran immediately in very large problems which simply had to be publicized so that the Surplus Property Administration and Congress would understand the difficulties that lay ahead.

Senator O'MAHONEY. I think I may say with all due respect to everybody concerned that in my opinion the Surplus Property Board should not operate under the insignia "Caveat emptor" because it is dealing with all the people of the United States, business and consumers alike.

Proceed, Mr. Wilson.

Senator WHERRY. "Caveat emptor" means "Let the buyer beware." You are a lawyer.

Mr. WILSON (continuing):

> This subsidy proceeds on the entirely erroneous assumptions that bauxite will be unavailable to the purchaser of a Government plant at prices competitive with Alcoa's and that Alcoa's cost of obtaining alumina from bauxite is so low that the lessee or purchaser of the Hurricane Creek alumina plant cannot be expected to compete at a profit.
>
> The program necessarily involves a Government-fixed price for alumina, not only for those who purchase from the Hurricane Creek alumina plant but, inevitably, for those who compete against alumina so purchased. Such a subsidy is unnecessary and destructive of free enterprise.
>
> 1. Any well-organized chemical manufacturing company is qualified to engage in the manufacture of alumina, and a number of such companies have so engaged. Alumina is manufactured by an old and well-known chemical process, known as the Bayer process, on which United States' patents expired some time prior to 1903. The Government-owned alumina plants at Hurricane Creek and Baton Rouge both employ the Bayer process for the extraction of alumina from bauxite.
>
> 2. The Government-owned Hurricane Creek alumina plant is located in the Arkansas bauxite fields and is the largest alumina plant in the United States. It has been so designed and constructed that it may be operated at varying proportions of its total capacity. It is admittedly an efficient and low-cost producer. Indeed, it is the best-located and lowest-cost alumina-producing plant in the United States and is completely equipped with the new sinter process, developed solely by Alcoa after many years of research and experimental work and the expenditure of a large amount of money. The Board's report, itself, says of this achievement:
>
> "The only significant new commercial development in the production of alumina during the war has been the work of Alcoa on the combination process, combining the Bayer process with the so-called lime-soda-sinter method."

HOW COULD INDEPENDENT INGOT PRODUCER GET ALUMINA "AS INDUSTRY IS NOW SET UP?" WITNESS IS ASKED

Mr. BERGE. May I ask a question?

You have stated here that the Hurricane Creek plant admittedly is an efficient and low-cost producer, is the best located and lowest cost alumina-producing plant in the United States. When you say that, are you thinking in terms of its using the highest grade bauxite or low-grade bauxite? Would that statement be equally true with either type of bauxite?

Mr. WILSON. It would be equally true with either, Mr. Berge.

Mr. BERGE. Would that be including the use of this process?

Mr. WILSON. It would.

Mr. BERGE. It would still be the lowest cost?

Mr. WILSON. It would.

Mr. BERGE. Let me ask you this: How could an independent ingot producer get alumina in this country as the industry is now set up unless it had access to the Hurricane Creek output? Isn't Hurricane

Creek about the only source of alumina from which an independent ingot producer could purchase?

Mr. WILSON. We have not yet, I hope, Mr. Berge, gotten to the point where a man cannot build his own plant.

Mr. BERGE. I understand that, but of the existing plants?

Mr. WILSON. They could buy from Alcoa and buy from Reynolds.

Mr. BERGE. That is what I want to know. As it is presently constituted, the existing plants would have to buy from you, from Reynolds, or Hurricane Creek?

Mr. WILSON. Or Baton Rouge.

Senator WHERRY. Mr. Chairman, just for the record, in view of the long testimony we took in the Small Business Committee, is this thing just narrowed down to this Hurricane Creek and Jones Mills plants as the only ones that might be sold to some independent operator or operated by the Government?

It indicates to me that most of these plants are so located that there is just no chance of ever operating them. Am I right in that?

Mr. WILSON. Not in my opinion. Mr. Goldsmith, I know, is interested in seeing that the two plants that are fed by the Bonneville system aren't put in that category, and I don't think they should be put in that category. They are, both of them, low-cost producing plants.

Senator WHERRY. What is going to happen to a plant like the Queens plant in New York?

Mr. WILSON. The Queens plant, in my own personal opinion, should either be scrapped or, if the military wants it, maintained for a certain period as a standby arsenal type of plant. But as a commercial operation for the production of aluminum in the postwar market, it has no possibilities.

Senator WHERRY. So the two propositions are the one at Arkansas and the one on the west coast. Is that about what it amounts to?

Mr. WILSON. There are three in the west coast area, two that Alcoa has had at Spokane and Troutdale, and the Olin plant at Tacoma.

Senator O'MAHONEY. With respect to the Massena plant, Mr. Wilson, if the cost of power were lower, would that change the situation?

Mr. WILSON. Very much so.

Senator O'MAHONEY. If they had a comparable power cost there, then it would become a feasible commercial plant?

Mr. WILSON. Each and everyone of these plants would be commercially feasible. Each and everyone of the plants is just as efficient a plant as any other, so the principal factor in determining its commercial postwar possibility is the cost of power.

TRANSPORTATION IS FACTOR IN DETERMINING VALUE OF PLANT

Transportation will enter into it to a small extent, and labor rates to a small extent, but in every case that we have studied, and I think in the case of these plants, the cost of the available power so far outweighs any of the other factors that it should be judged on that basis first and then the other factors evaluated for whatever they may be worth.

Senator O'MAHONEY. Mr. Caskie of Reynolds nods that he is emphatically in agreement.

Mr. WILSON. I am very glad to have him in agreement with me.

Mr. LIPKOWITZ. Mr. Wilson, in regard to the low cost at Hurricane Creek, using low-grade bauxite, Dr. Frary of your organization, a scientist, in the Chemical and Engineering News of December 10, 1943, indicated that—

> It seems unlikely that most such plants could make alumina which would be competitive after the war with the Bayer process oxide produced from important bauxite, so that when they have served their purpose (if they are built) they will probably either be scrapped or placed in a standby condition against the possibility of the occurrence of another emergency. It is only under very exceptional circumstances that low-grade ores can compete with high-grade ores in the production of any mineral product.

Mr. WILSON. That I would rather agree with, but wherein do you think that differs from the statement that I have made, Mr. Lipkowitz?

Mr. LIPKOWITZ. The low-cost aluminum plant at Hurricane Creek would still be low cost if it operated on low-grade bauxites?

Mr. WILSON. Yes, it still would.

Mr. LIPKOWITZ. As compared to Mobile, for example, operating on high-grade foreign bauxites?

Mr. WILSON. Yes. I think that the point I would get from this quotation you have just read is that a plant which is an alumina plant located away from the bauxite cannot afford to pay transportation on these low-grade bauxites and permit the company to process at that more distant point, competing with the cost of putting a high-grade bauxite into that alumina plant. But you put that alumina plant on the bauxite field where the low-grade bauxite is available right there, where there is no transportation cost, then you have an operation that is cheaper.

Mr. LIPKOWITZ. But that was exactly the situation when Dr. Frary made this statement. The Hurricane Creek plant was operating then and was the outstanding application.

Mr. WILSON. How did you start that—most of these plants, didn't you say?

Mr. LIPKOWITZ. He was generalizing about them.

Mr. WILSON. I think he was.

Mr. LIPKOWITZ. He said they just couldn't compete. He didn't make any reference to transportation.

MR. WILSON RESUMES READING OF ALCOA'S STATEMENT

Mr. WILSON. He was generalizing, and I am not.

(Continuing):

> 3. Upon the entry of Reynolds Metals Co. into the aluminum-smelting business, it built and operated at Listerhill, Ala., an alumina plant with capacity sufficient for the smelting of 100,000,000 pounds of aluminum ingot. However, that company elected to install an ingot-producing capacity of 160,000,000 pounds. During the war it overcame this deficiency in alumina-producing capacity by buying alumina from Alcoa and from the Alcoa-operated, Government-owned aluminum plants at Hurricane Creek and Baton Rouge. The postwar need of the Reynolds Metals Co. is not for a Government-subsidized price for alumina from Hurricane Creek, but, as the report elsewhere states, additional alumina-producing capacity. Surely the Government is not going to make alumina available to Reynolds Metals Co. and others at a subsidized price when all that is needed by these private companies is the capital and the initiative to build an alumina plant.
>
> 4. The proposal may well mean that private enterprise will disappear from the alumina business in favor of the Government subsidized operation at Hurricane Creek. There is no incentive to risk any capital investment in the mining of bauxite or the extraction of alumina if ones own Government is committed

to a program of performing the same operation at a selling price which is guaranteed in advance to be equal to or possibly lower than the lowest price of a private competitor.

5. Even if the announced intention of requiring the operator of the Hurricane Creek plant to sell alumina at or below Alcoa's costs of alumina did not result in sales at a loss—but only sales "at or near cost"—a substantial subsidy would be involved. The operator would have to be paid a fee or profit for manufacturing his product, and, if he did not obtain it from his customers because of a price restriction imposed by the Reconstruction Finance Corporation, he would have to be reimbursed to that extent by a Federal subsidy.

6. A program that required the operator of Hurricane Creek to sell alumina "at or near cost" would destroy competitve private enterprise. The latter—unlike a government, which has an apparently unlimited access to the taxpayers' money—could not invest $39,000,000 in an alumina plant (the cost of Hurricane Creek) and sell the product of the plant at or below cost. It would have to get some return on its investment.

7. It is a wholly deceptive picture of the aluminum industry to present it, as done in the report, as one dependent upon a sumsidized price of alumina. It would be much more of an inducement to a purchaser to know that bauxite is easily obtainable, that alumina can be manufactured by any number of experienced operators, and that all that is required to go into the alumina business is an old-fashioned willingness to risk capital in a competitive enterprise. Judge Francis G. Caffey summarized the matter thus:

"* * * anyone possessing the four cardinal tangible elements of intelligence, industry, courage, and money or credit is and has been able. With confidence, to go into the production of virgin aluminum. Anyone in the United States outfitted with the four prerequisites I have mentioned is now free, and, since the expiration of the Bradley patent in 1909, has been free, to produce virgin aluminum. All such a person needs, or for 30 years past has needed, in addition are bauxite * * * and water power * * *. No one stands in his way or, so far as has been shown, unless armed with a patent has ever stood in his way of obtaining either bauxite or water power or of his producing aluminum therefrom. He may encounter competition in buying bauxite or water power, but such competition is unobjectionable."

SUBSIDY NO. 5. REDUCED POWER RATES ON GOVERNMENT-OWNED POWER TO OPERATORS OF GOVERNMENT PLANTS

Legislation is proposed under which the amortization schedules and presumably the interest rates, so far as any interest is applicable to the Tennessee Valley Authority and the Bonneville Power Administration, are to be so reduced that these agencies may enter into contracts for the supply of power to the new aluminum producers at substantially lower rates than at present.

This subsidy rests upon the proposition that the rates at these Government-owned projects are not competitive with the rates at Alcoa's privately owned power facilities; and that there is something basically unfair in requiring an aluminum producer who contracts for public power to pay for power that he uses in periods of normal operation but not in times of depression.

This proposed subsidy rests upon fallacious assumptions and will defeat the self-liquidating aspect of our Government-owned power—

1. A demonstration that it is more economical to buy public power than to generate it privately is found in the fact that Alcoa has elected to buy Government power. It began the large-scale purchase of TVA power as early as 1936 and has been the largest industrial consumer on the TVA system since at least 1940. When it built its Pacific coast plant at Vancouver, Wash., in 1940 it chose to buy the necessary power from the Bonneville Authority in preference to a private development.

MORE ECONOMICAL TO BUY GOVERNMENT POWER THAN TO PRODUCE IT PRIVATELY

Mr. ANDERSON. Might I ask a question with respect to your point No. 1—

A demonstration that it is more economical to buy public power than to generate it privately is found in the fact that Alcoa has elected to buy Government power.

Alcoa does both, doesn't she, and in cases where she has power of her own, she has power she has developed over a period of years and takes out an amount if not all of the capital costs of that power, so, in effect, today you have a situation that whenever you talk about new power, it might be right to say that Government-produced new power would be cheaper than privately produced new power, but surely you would say that if you were talking about old and new power. You wouldn't say what you have said in that first sentence.

Mr. WILSON. Our first development of power in what is now known as the TVA district was in 1916. I don't recall what the depreciation or amortization is on a dam. The Revenue Department of the United States permits us to take a depreciation of 1 percent a year on a dam.

Mr. ANDERSON. And 3 percent on the over-all project.

Mr. WILSON. That dam has now been in use, let us say, 30 years. You say we have written off all of our investment. The most we have taken off the dam is 30 percent.

You are allowed no depreciation on the value of the property that constitutes the reservoir, and you gentlemen know that it takes thousands of acres of land to make a reservoir for a hydroelectric development; and this theory, this expression, or this thought that for some reason or other we have been able to write off everything that we have spent good sound American dollars in constructing and should now be able to consider it as a gift from the gods, is kind of beyond my conception of how business works.

Mr. ANDERSON. You didn't read that into my question. May I refer the question to a technical expert in the field of power who is here? It is a point in issue that is important.

Senator O'MAHONEY. Mr. Goldschmidt, did you hear the question?

Mr. GOLDSCHMIDT. Yes; I heard the question, but I would like to have it restated.

Mr. ANDERSON. My question is with respect to the first sentence under point 1 which you have before you, and I am raising the question whether Alcoa is arguing in this first sentence that by reason of the fact that she does buy some power from the Government, she has proved that it is more economical to buy public power than private power. I raise the question whether we do not have a problem here of new versus old power.

Mr. GOLDSCHMIDT. To make that point, it would depend upon how Alcoa keeps its books. The way the Government keeps its books, these power developments in which the Government makes investment are paid out over a period of years with interest, and are amortized. I assume you figure that the Alcoa does the same thing.

Mr. ANDERSON. I am assuming that.

Mr. GOLDSCHMIDT. I don't know that there is any basis for that kind of assumption, because there isn't anybody that tells them how they have to keep their books on these power plants.

Mr. WILSON. May I suggest that the Internal Revenue Department is quite fussy about our books on them.

Mr. GOLDSCHMIDT. It has been my experience that the books you keep for the Internal Revenue Bureau on this question of depreciation are quite different in the public-utility business from the books that are kept for rate-making purposes, or for any checks on pay-out of the property. That is one of the difficulties that the private utilities find themselves in from time to time.

Whether you have written off your dam and your power system for tax purposes or not is something that there is some agency that can go into the matter with you. But whether you have written off from the standpoint of profits assigned to your power operation these projects or not, I don't know, and I don't know that there is anybody in the country that does know except the Aluminum Co. itself.

The way we keep our books, it would make a great deal of difference whether you came and bought the Bonneville or Coulee power, 30, 50, or 60 years from now than when you bought it today, because we are now on the job of amortizing our power investment, as you, yourself, point out by speaking of them as self-liquidating interest-bearing investments.

I am afraid I have not answered the question directly.

Mr. ANDERSON. You have answered my point.

ALCOA'S REASON FOR CANCELING TVA POWER CONTRACT

Mr. TROY. Did not Alcoa cancel a lot of the power with TVA recently? I read somewhere that Alcoa had canceled a large block of TVA power just recently; is that so?

Mr. WILSON. That is correct.

Mr. TROY. What is the purpose of cancellation? Do you utilize your own power?

Mr. WILSON. We thought that the market for our production would not justify our continuing to pay those millions of dollars to TVA.

Mr. TROY. You would rather use your own power by comparison?

Mr. WILSON. No, I would not say our own power by comparison. We thought we had no anticipation of a market that would justify continuing to purchase that power.

Senator O'MAHONEY. You didn't need all the power?

Mr. WILSON. That is correct.

Senator O'MAHONEY. Will you proceed, Mr. Wilson?

Mr. WILSON (continuing):

The major fallacy in your statistical comparisons is that they make no provision for interest or amortization on investment in Alcoa's private power projects. We call to your attention that Alcoa has to allow for and provide interest and amortization at rates much higher than appear in Tennessee Valley Authority and Bonneville Power Administration calculations and, furthermore, that Alcoa's interest and amortization are applicable to its entire cost, while in the case of Bonneville Power Administration and Tennessee Valley Authority a large portion of their cost is theoretically allocated to flood control and navigation.

Mr. GOLDSCHMIDT. Mr. Chairman, I think here I would like to ask if any of the Alcoa power facilities are dedicated to navigation or flood control. I think this word "theoretically allocated" certainly raises an important question of policy.

Are any of your power facilities allocated or useful for other purposes than the production of power?

Mr. WILSON. They do accomplish a portion of the very thing that the ownership of TVA Dams accomplishes for TVA.

Mr. GOLDSCHMIDT. Were they built to provide for flood storage and for navigation release?

Mr. WILSON. They are to a certain extent, yes. They are not operated with that main objective in mind.

If Mr. Goldschmidt is thinking that the word theoretical casts any aspersions, I want to say that is not the intention at all. Leave out the "theoretically," if that is what gives you any pause.

Mr. GOLDSCHMIDT. You wouldn't want in your Bonneville power bill to pay the cost of navigation and flood out of your aluminum operations, would you?

Bonneville Dam was built for navigation; Coulee Dam was built for other purposes besides power, as were Norfork, Ark., and these other flood-control and navigation dams, and the costs are allocated to the various benefits that these multiple-purpose dams have. I am sure that you would not want to give the impression that you object to that process of allocation, and that you would want, on the contrary, to pay a power cost that would subsidize, if you want to use that word, navigation and flood control?

Mr. WILSON. All I mean to say here is that these Government operations get the benefit from the fact that part of the cost has not been taken in their cost base on which the power rates are determined.

Mr. GOLDSCHMIDT. My point, Mr. Wilson, is merely that I do not think there is any difference between us, but I want the record to be clear that these allocations of costs that are made on these Government projects are for the purpose of preventing new and other power consumers from paying more than the cost of production of the power, and that the projects are built primarily for flood control, for navigation, and for irrigation. For that reason they are allocated.

Now I think, as you know, there are dams that are purely power dams, and I assume that Alcoa's power dams are that kind of dam.

You can build a dam up here that is only good for producing power, but so far as navigation is concerned, it stops navigation, and as far as flood control is concerned, doesn't help flood control.

These dams the Federal Government built are built for multiple purposes; in the areas of the West for irrigation of arid land, and for navigation, as well as the control of floods.

Senator O'MAHONEY. Getting away from the technicalities here, which I confess I find a little difficult to follow, I want to ask you, Mr. Wilson, this question: Are you telling the committee that Alcoa produces its own power at a higher cost than TVA produces power?

Mr. WILSON. I really don't know how to answer your question. It is my opinion that if we kept our books the same way, and if we allocated or were privileged to allocate a portion of our costs, I don't think that would be true.

Senator O'MAHONEY. To my simple mind, it is not a question of keeping books. It is a question of the price of power, and you have just told us that you chose to abandon the low-cost Tennessee Valley power in order to keep your own power.

I am asking you, therefore, are you telling us that your own power which you are keeping is more expensive to you than the power which you have given up?

Mr. WILSON. I wouldn't know, but we have no choice with our own power. We have it and have to keep it.

Senator O'MAHONEY. If it were more expensive than the TVA power, don't you think it would be a good thing for your stockholders if you would use your cheap TVA power rather than your own expensive power?

Mr. WILSON. How are we going to get rid of ours?

Senator O'MAHONEY. Dr. Anderson says you might sell it to TVA.

Mr. WILSON (continuing):

Even if interest and amortization were allowed Alcoa merely at the abnormally low rates which are used by the Bonneville Power Administration and Tennessee Valley Authority, Alcoa's power costs would be equal to or even more than the standard power rate that is open to any new aluminum producers. Alcoa does not estimate its costs of aluminum on any assumption that its power plant is not subject to interest and amortization. Surely the contention that a purchaser of public power cannot compete with one who generates his own power does not represent informed opinion. The original theory of the development of the Tennessee Valley Authority and Bonneville Power Administration was that private power rates were too high and needed a Government "yardstick."

3. The comparison of public and private rates has the further fallacy that the public rates for firm power are compared with the private rates for a mixture of firm and secondary power. The further error is made of assuming that Alcoa pays nothing for the TVA power purchased under its Fontana agreement while, in fact, it made a large payment for this agreement in turning over to the Government, without charge, the bulk of the thousands of acres of property required for the Fontana Dam and Reservoir, a vast amount of engineering data in connection with the development of the property, as well as control of the regulation of Alcoa's system of privately owned dams in the Little Tennsessee Valley.

FONTANA AGREEMENT

Mr. ANDERSON. I don't want to keep interrupting the reading of this statement, but our previous studies indicated to us that the Fontana agreement was not so one-sided as appears in this statement.

Now, I am perfectly willing, as we go along, to submit for the record certain testimony and evidence that we have or ask questions of this kind. I would rather do the former, because it seems to me unfair to the record to have a statement like this go without a further probing of the Fontana agreement.

I will grant you it is somewhat of a side issue to the main purpose of the meeting, but I think the record ought to be very clear on these important matters, because this is a permanent record.

Senator O'MAHONEY. We might adopt the method in the court: You can save an exception.

Mr. ANDERSON. Very well.

Senator WHERRY. You will certainly admit that any evidence anyone wants to submit contrary to this is admissible. He can reserve his rights just the same.

Mr. WILSON. I may say in passing comment on Dr. Anderson's remarks that we don't claim the Fontana agreement was a one-sided agreement. I personally negotiated and signed it on behalf of Alcoa.

Mr. ANDERSON. Was it a favorable agreement to both parties?

Mr. WILSON. Having said I negotiated it, I should hesitate to say, but I think it was a wonderful agreement, a remarkable agreement, not because of the benefit Alcoa got from it or the benefit TVA got from it, but it is the only agreement I know of between a private system with power-generating facilities and a Government-owned power-generating agency that was mutually cooperative and mutually complete, in every respect a meeting of the one's requirements with what the other one could contribute to those requirements.

Mr. ANDERSON. I would add one more thing: And mutually profitable. It was a very profitable arrangement on both sides?

Senator O'MAHONEY. Is the answer "Yes"?

Mr. WILSON. We felt so.

Mr. GOLDSCHMIDT. I also want to note an exception merely to the use of the phrase, the "abnormally low rates which are used by the Bonneville Power Administration and TVA."

I think our rates of amortization and interest are quite appropriate.

Senator O'MAHONEY. You want us to understand you feel the Bonneville rates are justified?

Mr. GOLDSCHMIDT. On a business basis.

Senator O'MAHONEY. Proceed, Mr. Wilson.

Mr. WILSON (continuing):

4. The argument that public power rates for a new aluminum producer must be lower because a Canadian competitor can get power at Shipshaw at a lower cost is unsound because your statistics allow nothing for interest on the tremendous investment at Shipshaw. The purchaser of a Government plant is further protected by a tariff wall between Canada and the United States which may be raised at will by Congress. No article of foreign manufacture has ever successfully captured the United States market where there was a strong domestic industry.

5. No private enterprise is likely to hazard a large investment on the gamble that Congress will liberalize the rate structure at the public power projects and maintain such a policy indefinitely. A rate structure that can be lowered by congressional fiat can be raised by the same method.

6. There remains an abundance of undeveloped water power in the United States of the same general characteristics and qualifications as that owned or controlled by Alcoa, and what Alcoa has done, anyone else may do.

7. Why not point out that the Government-owned aluminum smelting plant at Jones Mills is not dependent on water power at all but generates power by natural gas on a fully-competitive basis?

8. There seems to be confusion in the report between the function of the Surplus Property Administrator and general advocacy of the position of Reynolds Metals Co. For example, why the recommendation that TVA legislation be revised in the interest of a power contract for Reynolds Metal Co. at a privately owned plant which is not the subject of disposition by the Surplus Property Board?

JONES MILLS GENERATED LARGELY BY NATURAL GAS

Mr. ANDERSON. Is it not true that something less than the full capacity of Jones Mills is generated by natural gas? I am under the impression that half is natural gas, and the other half electrical power.

Mr. WILSON. That is correct; 50 percent of the plant was powered by natural gas. It was originally contemplated that that would be equally true for the other 50 percent, but those facilites were diverted to other uses.

Senator MCCLELLAN. I would like to observe that it can be supplied, because we do have the gas.

Senator WHERRY. If natural gas can produce as cheaply as water power—is that true?

Mr. WILSON. Yes.

Senator WHERRY. We have natural gas in Nebraska, too. Don't forget that when you locate the next one.

Senator O'MAHONEY. Let's not overlook the great supply in Wyoming, Senator.

Senator WHERRY. That is one place where the chairman and Senator Wherry are in absolute agreement. We are neighbors and friends on that; yes, sir.

Mr. WILSON (continuing):

9. The proposal to require lower power rates on Government-generated power used in the Government-owned aluminum plants compels Congress to choose between maintaining the present rates or abandoning its 50-year amortization policy, as Dr. Paul R. Raver, the Bonneville Power Administrator, recently testified.

10. The argument that present Government power policies are inflexible because they require payment for a fixed amount of power, even though less energy is needed at times because of changes in the demand for aluminum, is distorted. The normal way of operating an aluminum smelting plant is on a 365-day, 24-hour-a-day basis and power is wasted only in times of shut-down. The same con-

dition prevails at a privately owned power project, where power is likewise wasted and money lost in times of shut-down. The recommendation that Congress authorize a new type of power contract, whereby consumers pay for only what they use, is simply a further form of subsidy. It is unneeded and places an operator who is subsidized at a great advantage over one who operates a privately owned water power and bears his own losses in times of little or no utilization.

11. As a large, if not the largest, purchaser of Government-generated power, Alcoa will, of course, welcome any decrease in the rates to be paid for such power or improvement in any of the other contract terms and provisions. However, Alcoa has never sought and is not now seeking rates or other terms which are not justified by the actual facts and which constitute a subsidy because of power being supplied to it at prices or under terms which do not provide an adequate return to the investor—in this case, the taxpayer.

SUBSIDY NO. 6. GOVERNMENT STOCK-PILING OF ALUMINUM INGOT PURCHASED FROM OPERATORS OF THE GOVERNMENT PLANTS

It is proposed to create an artificial market for the operators of Government-owned smelting plants by stock-piling aluminum ingot ostensibly for purposes of national defense.

We do not criticize the stock-piling of aluminum for national defense. But if this were the purpose of the proposal, it would be purchased on the open market at a competitive price and stock-piled only in the amounts deemed desirable for defense. Such a program would be the function of the military authorities and would have no place in a surplus property disposal program.

The proposal to stock-pile surplus aluminum as a means of making operation of the Government plants attractive is unnecessary and defeats its own ends——

1. No less an authority than Attorney General Tom C. Clark advised the Congress as late as September 11, 1945, that a postwar market of from 2 to 3½ billion pounds of aluminum existed in the automotive industry alone if low enough prices can be made and competition established in the aluminum industry.

2. In due course the Government will unload its stock pile, and private industry will meet it in competition.

3. The whole program of subsidies tells a prospective operator with emphatic finality that he has no chance to survive unless he cares to invest in a series of Government doles. The proposed subsidies, which extend from raw materials to sales of the finished product, start with the Government purchase of bauxite, follow with a Government price on alumina pegged at or below Alcoa's costs, a contract for Government water power which will defeat the amortization program now in effect, leases under the terms of which the Government incurs all the risk of loss, with options to purchase the plants on a basis which gives the lowest purchase price to the poorest and most extravagant operator, and end with a market built around a Government stock pile.

4. The program devils the prospective operator with governmental regulation and interference in his business at every step of the way. It is wholly unnecessary. Aluminum markets can be created in the future, as in the past, by low costs of operation and intelligent research and sales effort.

Senator O'MAHONEY. My thought, Mr. Wilson, is that this argument which you have now advanced under the heading "Subsidy No. 6" is based upon a premise that doesn't seem to be justified by the language of the report of the Surplus Property Board.

On page 45, a reference which I find on stock piles, reads as follows:

The Army and Navy Munitions Board has recommended to Congress a stock pile of primary aluminum and bauxite for national defense and Government policy can also be shaped if necessary to enable new producers, along with the established old producers, to contribute to that stock piling.

That seems to be a proposal to deal equally with old and new. That is paragraph 7 on page 45.

Mr. WILSON. On page 3 of the report, the last sentence of the paragraph numbered 18 carries that a little further, I think:

Furthermore, the Army and Navy Munitions Board has recommended a stock pile of primary aluminum and bauxite for national defense, and a portion of that stock pile can be provided by new producers, thus giving them an additional cushion for production.

Senator O'MAHONEY. That, I take it, is merely a statement they wouldn't buy at all from Alcoa but might buy some from the new producers.

Mr. WILSON. On page 40, it reads:

The Army and Navy Munitions Board has recommended to Congress the establishment of a large stock pile of aluminum and bauxite. New producers would also be helped if they contributed to the stock pile.

Senator O'MAHONEY. That isn't any exclusive proposition.

Mr. WILSON. No.

Senator O'MAHONEY. I think the three sentences which you have quoted, one of which I quoted, are all based upon a purchase from both old and new. There is no statement here anywhere which gives rise it seems to me, to any justifiable inferenc that thre is a proposal to buy for stockpile purposes only rom new producers to the exclusion of the old.

Mr. WILSON. That may be.

It is rather interesting to me, after having heard some of this other testimony before your committees, that some of the prospective lessees seem to feel that the program contemplated by the Board was such that they were to provide the stock pile by Government purchases.

Senator O'MAHONEY. Of course no proposal has been accepted, and while I think an applicant may be pardoned for asking the best terms he thinks he can get, certainly I don't believe the Surplus Property Board must be judged upon the basis of what an applicant seeks to obtain.

Senator WHERRY. Mr. Chairman, wasn't the answer Mr. Straus gave on the recommendations made by the Surplus Property Administrator, that he lost interest in leasing one of these plants for two reasons; one being the Government subsidy, and the other that he was afraid of that Government stock pile? Wasn't that his answer?

Senator O'MAHONEY. He said nothing about subsidy.

Senator WHERRY. He said he thought they would be sold on a basis where the Government would not require a subsidy, and that the Government would not stock pile aluminum. I understood him to say he was afraid the Government would dump that on the market.

Senator O'MAHONEY. Does the Senator from Nebraska wish to take the position that Congress should not follow the recommendation of the Army-Navy Board and stock pile aluminum unless it can buy it all from Alcoa?

Senator WHERRY. You are not interpreting my remarks correctly.

Senator O'MAHONEY. I know I am not; I am just putting the reverse English on it.

Senator WHERRY. But you are putting it on in a way which does not interpret what I intended to say. I am not contending about what the Army-Navy program is. I am talking about this portion that the Government is going to buy to help cushion these new producers.

Senator O'MAHONEY. There is no statement there that the Government is going to buy.

Senator WHERRY. That is your interpretation, but I am stating to you what the witness Straus stated, that he lost interest in leasing one of these Government plants, not only because of the processes that he felt he couldn't produce the low grade unless he got the know-how, but secondly, that when he found out about the subsidy program, he

said they should be disposed of without the payment of a subsidy, and without the Government dumping aluminum on the market.

Senator O'MAHONEY. But the issue here, Senator Wherry, is not what you or I think or recollect that Mr. Straus said. The issue here is what has the Surplus Property Board recommended and we don't have to guess at that. We can read it. Here it is:

The Army and Navy Munitions Board has recommended to Congress—

and that is just a statement of fact of a recommendation—

the establishment of a large stock pile of aluminum and bauxite.

Then the Board goes on and says:

New producers would also be helped if they contributed to that stock pile.

Now, what is wrong about that statement of plain fact? Of course, you don't want to exclude new producers from contributing do you?

Senator WHERRY. Not at all, but I am still bringing to the attention of the chairman that it was my understanding from his answer that he became apprehensive about what would be done with this stock pile, or that portion, I mean, that was to be produced to cushion these new producers.

Senator O'MAHONEY. That wasn't my understanding but it is unimportant. If there is a defense stock pile, it is a defense stock pile.

Senator WHERRY. I am not questioning that at all, but certainly the part of the aluminum they are going to buy from these new stockholders, the witness interpreted might be thrown on the market. Now, I don't know whether he got it all out of the recommendations. I asked him if he agreed to these recommendations, and he said not in their entirety.

I asked, "With what don't you agree?"

Then he made that statement.

Mr. BORCHARDT. What the witness I believe referred to was not the stock pile to be accumulated in the future, but the stock pile of present aluminum scrap which he is afraid of—hanging over the market.

Senator WHERRY. I am wondering in the disposal of the plants if stock piling, by providing that cushion, may in any way cause another party that might be interested to lose interest, and I thought the witnesses's testimony ran to that.

Mr. BORCHARDT. He referred to the secondary aluminum which now is in existence.

Mr. WILSON (continuing):

ALCOA'S OFFER TO LEASE OR PURCHASE THE GOVERNMENT PLANTS PROVES THE LACK OF NECESSITY FOR SUBSIDIES

The best proof that subsidies are not needed to dispose of the Government aluminum plants is the fact that Alcoa was willing to buy or lease the Hurricane Creek alumina plant and one or more of four of the Government-owned aluminum smelting plants. We asked for no guaranties against loss; we sought no subsidies. We could not have been willing to spend our own money on such a program unless we were confident that we could develop new markets sufficient to absorb the output of these plants and that the properties were fully competitive with respect to location, size, and equipment. Otherwise, we would have preferred to build our own new plants.

We asked no subsidies as a purchaser. We were willing to pay cash for any of these plants that would be sold to us. We expected that the output of any plants so purchased would have to compete for markets in competition with the purchasers or lessees of the remaining plants, with Reynolds Metals Co. and Olin Corp., with Aluminum, Ltd., and other foreign producers, and with the output of our existing facilities. In short, we were in no different position than

the prospective operators with whom you are negotiating, save only that we had confidence in the future of the aluminum industry, in our own ability to operate efficiently and sell the production, and had no desire to hold up the Government for subsidies as the price of selling a plant. What we expressed a willingness to do, others ought to be able to do. Of course, they will hold out for the entire six-point subsidy program if they think the Government can be maneuvered into paying it.

Parenthetically, we note the Board's announced policy that: "Prospective competitors of Alcoa will have first choice of plants and equipment."

We submit that this is a poor reward for having designed and built these modern and efficient plants for the Government, without fee of one cent of profit to Alcoa, and then successfully operating them under leases which returned millions of dollars to the Government. This continues the same discriminatory practice that prevailed in the wartime leasing by the Reconstruction Finance Corporation of 35 aluminum fabricating plants, 9 aluminum reduction plants, and 2 Bayer process alumina plants. All lessees or operators, except Alcoa, were given options to purchase or rights of first refusal to purchase at the best price offered by another buyer.

CIRCUMSTANCES UNDER WHICH ALCOA FACILITIES MIGHT BE COMPETING AGAINST EACH OTHER

Mr. BERGE. May I ask what you mean? If Alcoa were to purchase these plants they would have to compete with the output of your own existing facilities. Do you mean that the Government plants would compete with your own existing plants?

Mr. WILSON. I mean from an economic point of view, Mr. Berge, that production from any plant so purchased would be competing with our own from an economic point of view.

Mr. BERGE. Would you have put them under different management?

Mr. WILSON. No, no.

Mr. BERGE. As the property of Aluminium and your own are separated?

Mr. WILSON. I have no thought of putting them in any different management from our own plants, no.

Senator O'MAHONEY. Are you in a position of competing with yourself?

Mr. WILSON. Well, for any producer having two facilities producing the same product from an economic point of view one is competing against the other. Whether one such facility can be maintained in operation or not, would depend upon the economy of the production of those two units, whether it was in his own system or not.

Senator O'MAHONEY. What you are saying, then, is that Alcoa may own several units, one of which can produce more economically than another, but that does not necessarily mean that those benefits would be passed on by the low-cost Alcoa unit as against the high-cost Alcoa unit, or does it?

Mr. WILSON. No; it does not.

Senator O'MAHONEY. May I suggest that a reading of this sentence, when we bear in mind that the Reynolds Metal Co. has made an offer to the Surplus Property Board which has not been accepted, seems to assume that Alcoa could purchase or acquire some of these Government plants that Reynolds Metal and Olin could also acquire, and yet there is nothing before the committee as yet to indicate that any terms or conditions have been suggested which either Reynolds or Olin would accept. Therefore it would appear that according to your statement here there would be no possible competition except this technical intracompany competition by way of economies which are not passed on to the public.

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Mr. WILSON. Aren't you overlooking, Mr. Chairman, the fact that Reynolds Metals Co. has two large plants of their own that are competing in the market today, and that the Olin Corp. is operating a plant which is competing in the market today? That is all we mean by this reference.

Senator O'MAHONEY. Of course, compared with the total output, their product is comparatively small, is it not?

Mr. WILSON. Oh, no. Reynolds Metals Co. is producing 160,000,000 pounds a year, isn't it, Mr. Caskie?

Mr. CASKIE. 160,000,000 pounds.

Senator O'MAHONEY. How much of that has been going to the Government?

Mr. WILSON. I don't want to ask Mr. Caskie to testify.

Would you mind?

Mr. CASKIE. I don't think any of it is going to the Government today.

Senator O'MAHONEY. That is a commercial production. How about Alcoa production?

Mr. WILSON. A minor portion of it is going to the Government, but very small.

Senator O'MAHONEY. What is the total?

Mr. WILSON. Our production today is at the rate of about 550,000,000 pounds a year, with unfortunately nearly a half, nearly a third to a half of that today going into Alcoa's stock piles, not the Government stock piles.

Senator O'MAHONEY. That is about 5 to 1 as compared with Reynolds.

Mr. CASKIE. We are operating at a capacity of 100,000,000 pounds a year today.

Mr. BORCHARDT. May I ask you this, Mr. Wilson?

Did you submit a suggestion to the Surplus Property Administrator which would suggest the operation of your plant and the now Government-owned plants on an over-all operating capacity? Was that kind of proposal contained in the letter?

Mr. WILSON. We didn't suggest that. The Surplus Property Board's representatives suggested that to us.

Mr. BORCHARDT. I was just going to suggest that such a thing might be an agreement in restraint of trade, because you would try to eliminate competition among yourselves between the Government plants and privately owned plants.

Mr. WILSON. We would refer that Mr. Berge.

Mr. O'MAHONEY. May I ask another question in this connection, referring to this particular paragraph concerning your offer?

We asked no subsidies as a purchaser. We were willing to pay cash for any of these plants that would be sold to us.

Do you care to make any comment on that statement in connection with the decision of the circuit court?

Mr. WILSON. Yes; I would like to make this first and, to me, very essential comment on that.

ANY PURCHASE OF PLANTS BY ALCOA SUBJECT TO APPROVAL OF COURT

Any purchase of these plants is premised 100 percent on the program that is involved in connection with any such purchase being approved by the district court that has jurisdiction in our antitrust case.

Mr. HICKMAN. We discussed that very question a little later in this statement.

Senator O'MAHONEY. Very well.

Senator MCCLELLAN. May I ask a question. In other words, you are not interested in acquiring any of these plants, if by acquiring that interest you would further cause the court to hold you are a monopoly and force dissolution?

Mr. WILSON. That is right.

Senator MCCLELLAN. You are not wanting to acquire anything that would bring you within further condemnation of the court as a monopoly?

Mr. WILSON. That is correct.

Mr. ANDERSON. May I ask, putting this thing a little further along, if you did obtain Hurricane Creek, wouldn't it in your judgment further strengthen the position taken in the decision of the court to the effect that you did have, at the time of the decision, a very substantial monopoly in ingots, and that by acquiring this new facility, even though you now have a more vigorous competitor in the field, you would be in jeopardy in the court?

Mr. WILSON. I prefer to let counsel speak on that a little more. You are getting a little beyond my depth, Doctor.

ALCOA'S POSITION WITH RESPECT TO FEDERAL CIRCUIT COURT DECISION STATED

Mr. HICKMAN. We thought we could safely make the offer. That was thoroughly investigated by the district court and the company fully cleared. However, any proposal that involved Hurricane Creek would probably involve smelting plants as well, any anything that involved smelting plants we would submit to the district court and be guided by their judgment, or the circuit court if we appeal to that ruling.

Mr. ANDERSON. I think it is a case in point to ask the Attorney General's representative.

He made a report on this, and I take it it is a very important factor in any decision reached by the Surplus Property Board.

Mr. BERGE. As I understand what Mr. Hickman just said, it is that he believes that under the circuit court's opinion you could offer to buy Government alumina plants as distinguished from ingot-producing plants because you were not found to be in monopolization of the alumina manufacturing business.

Is that it?

Mr. HICKMAN. That is right.

Mr. BERGE. My offhand view on that would we that since the principal use of alumina to make ingots and that the carrying out of the program that the court's opinion contemplates to create competition in ingot manufacturing would hardly be promoted by making independent producers of aluminum ingots further dependent on Alcoa for their source of supply of alumina.

Speaking offhand, it seems to me that there is no practical opportunity to create independent competition in the production of ingots if the producers of ingots are going to have to be dependent on Alcoa for their alumina.

Mr. HICKMAN. One thing that reassured us in feeling that we could put in a bid on an alumina plant was the fact that the district court and later the circuit court went into this whole situation of alumina and

aluminum. While it was true that Alcoa manufactured nearly all the alumina, as well as the aluminum produced in this country, the courts distinguished those situations, and they said, "The reason you manufacture all of the alumina is that you have got the only large commercial need for it in manufacturing aluminum." They found the chemical companies were willing to manufacture alumina if they could find a market for it. There was no secret about the process because the patent expired some 30 years ago, and the court said, "There is nothing preventing anyone from building an alumina plant that wants one."

At the time of the trial, Alcoa manufactured over 90 percent of the alumina manufactured in the country, and sold nearly all of it to itself for aluminum manufacture. We felt the court had found there was no bottleneck in that situation. However, I think practically anything that was ever worked out in alumina would involve aluminum as well and we would be in the district court to see whether they would approve the program.

INVESTMENT REQUIRED TO ESTABLISH COMPETITION IN BIG NATIONAL INDUSTRIES SO GREAT THAT PRIVATE CAPITAL HESITATES TO TAKE RISK

Senator O'MAHONEY. That brings us to this point. Your contention, then, is that even if Alcoa should acquire this Government alumina-making plant, it would add to its alumina-making facilities which in 1940 were 90 percent of the total facilities of the United States, and, nevertheless, it would be possible for any competitor who had the money and was willing to take the risk to establish some additional alumina facilities.

Mr. HICKMAN. Reynolds had no trouble building one when they wanted it, and that was the view the court took.

Senator O'MAHONEY. That wasn't the impression I had at the time that Reynolds was seeking to build that plant.

Mr. BERGE. Isn't it true that in the interest that any individuals may have in acquiring any of these plants, they generally condition their interests in an aluminum plant upon also being able to get an alumina plant?

Mr. HICKMAN. I should think they would be interested in the terms on which we might buy the alumina plant, and our letter of July 24 indicated a large measure of Government control in how that plant would be operated.

Senator O'MAHONEY. Here we are confronted with a practical illustration as illustrated by the testimony of the American Smelting & Refining Co.

The investment which is required to establish competition in any of these great national industries, not aluminum alone but steel, rubber, or oil, is so great that private capital hesitates to take the risk.

I think that Congress can very well alter our tax laws so as to create an incentive, if I may use the word, to induce private capital to enter the investment field. Until that is done, we have to meet the situation as it is, and our problem here, and the problem of the Surplus Property Board is what to do with these plants. Shall we sell them or lease them to Alcoa and thereby increase the dominant position of that company in the industry, or shall we, in the interest of all of the people of the United States, endeavor to find a formula by which it may be possible to lease or sell these plants to competitive units?

It would seem to me, if I may frankly say so to you gentlemen representing the Aluminum Co. of America, that with such a tremendous hold upon the industry you should not be so seriously alarmed lest there be a competitive enterprise established here. You should not be so seriously alarmed that representatives of the Government are seeking ways and means of establishing a competitive industry.

Now, I quite agree with you. I don't want to see the Government go into competition with Alcoa.

Senator WHERRY. Swell.

Senator O'MAHONEY. I want to see a free enterprise economy established, but I cannot for the life of me see how it can be established, due to all of our experience, if we permit only huge enterprises which have been called, rightfully or wrongfully, partially or wholly monopolistic to continue to get a greater and greater hold on all of our productive facilities.

There is the question that bothers me, and personally, may I say I think myself that a great company like yours, a great unit like Alcoa would not suffer in the last analysis, but would benefit from the establishment of competition.

If you can help us and help the Surplus Property Board to find a way to bring competition into this field, I think you will benefit from it, and the whole public will benefit.

ALCOA NOT ALARMED "ONE SLIGHTEST BIT" OVER COMPETITION IN INDUSTRY; IT IS NEEDED IF IT IS SOUND

Mr. WILSON. We are not alarmed one slightest bit, Mr. Chairman, about the thought of competition in this industry. We agree with you and will welcome competition in this industry, and we hope that the outcome of all of this will be a sound, thorough competitive situation, as you yourself say, and we will "amen" it for a long time. It would be the greatest thing we could have happen, but we do not want it on a false basis.

Senator O'MAHONEY. Then, instead of making an argument to us as to why it would be better to sell or lease these plants to Alcoa, why don't you take thought and give us a suggestion of how the Surplus Property Board can dispose of some of these plants at least to some of your competitors, and by doing that you will establish a great precedence?

Mr. WILSON. That is our greatest objective in this, to point out to you what we feel are the fallacies in this report. We think the greatest selling talk that you can have to sell these plants is if we point out to you how valuable they are, and how low cost they are, and offer to back it up and say we believe what we are saying because we will buy them ourselves if you cannot get anybody else. We don't say you must sell them to us.

SENATOR O'MAHONEY QUESTIONS WITNESS' INTERPRETATIONS OF SYMINGTON AND MOMENT REPORTS

Senator O'MAHONEY. But, Mr. Wilson, we started out this morning with an acknowledgment, when you read the first page of your letter, that in the light of the testimony here you would modify it. This whole presentation, to which we have given the whole day, was based upon your interpretation of a report. I am willing to acknowledge

your good faith in making that interpretation, but I admit to you that the testimony which has been given here over the past 2 days and today by Mr. Symington and Mr. Moment indicates clearly that many of the basic assumptions upon which your argument has been made are not correct, that they don't represent the thinking of Mr. Symington or the Surplus Property Administration.

Mr. WILSON. They may not represent the thinking, but they were the written words in their report.

Senator O'MAHONEY. That was your interpretation of the meaning. So, as I say, let's now get down to brass tacks, and on the basis not of the report but of the testimony take thought and give us a memorandum after you have gone home.

Mr. WILSON. I will be glad to try to do so.

Senator WHERRY. May I ask the distinguished chairman this question, because the report will probably be written, unless there is an extension of time, before some of us will have a chance to see it.

If we cannot sell these plants as is provided by the act to competitors, and Alcoa is not permitted because of a court decision to buy or lease them, then is it the feeling of the chairman that in order to get this competition you are talking about the Government has to go in and operate them or sell them or lease them to some institution and give them a subsidy to operate?

It seems to me we are right smack up against it one way or the other.

Senator O'MAHONEY. I don't believe in Government operation.

Senator WHERRY. How else are you going to do it?

COMMITTEE'S OBJECTIVE STATED TO BE TO FIND WAYS TO MAKE PLANTS AVAILABLE TO ALCOA'S COMPETITORS

Senator O'MAHONEY. I am now seeking to find out and this committee is seeking to find out if there are not ways and means by which these plants may be made available to competitors of Alcoa.

I am not willing at this stage in the proceeding to say, and certainly I am not willing upon the basis of the presentation contained in this brief, that such a formula cannot be presented.

Senator WHERRY. You think we still have a chance to sell them to individuals on the old enterprise system where it will not involve a subsidy, stock piling or purchases from the producer through some lease system, which I call an indirect subsidy?

Mr. BERGE. Since we are all seeking light, and Mr. Wilson and his associates are technically extremely well qualified on the problems of this industry, Mr. Chairman, and he has stated that he would welcome competition, I think we ought to urge that he give us some constructive suggestions as to how independent competition can be created in the industry, short of the ultimate relief that the court would give. I think we are all interested in that.

DISSOLUTION AND REGROUPING OF PRESENT ALCOA'S PROPERTIES SUGGESTED AS POSSIBLE REMEDY

Senator O'MAHONEY. You are speaking, no doubt, having in mind the recommendation of the Attorney General, that we should proceed to the dissolution of Alcoa, and that that would be the most direct way to establish competition in the industry?

Mr. BERGE. I think it can be done that way, but as I hope I stressed yesterday, we are willing to see it accomplished short of that if it can be done. Therefore, I think it would be very helpful if before this proceeding is finished the Alcoa representatives, who say they would welcome competition, would make specific suggestions as to how that can be brought about.

In the final analysis, if the Surplus Disposal program fails to do it, it can be done through the court by a regrouping of the present Alcoa properties.

Mr. ANDERSON. Isn't it true if that is the recourse which has to be resorted to, namely, dissolution, that Government plants are probably going to remain idle for quite some time, employment will not be reestablished in those plants, and the industry will be in a hazardous condition for those years—and it would take years—during which the fight goes on with respect to dissolution?

In other words, it is not a practical immediate answer to this very important question.

Mr. BERGE. I am afraid that is so.

Senator O'MAHONEY. A distinguished member of the Senate several years ago, now deceased, once said in the midst of the depression when a constitutional argument was raised, "You can't eat the Constitution." That was Senator Borah.

Now, what he meant by that was that in a crisis the people will do that which is necessary to maintain existence. That philosophy is exemplified in this problem, because there are many petitions which come here to Members of the Senate and Members of the House which ask only one thing, that a particular plant be kept in operation so that there shall be employment. No question is raised as to the costs, or who is going to supply it, and it may be altogether outside of that.

Here we had another illustration the other day. Senator Brewster, of Maine, a State which produces potatoes, called a meeting of Senators from States that produced potatoes, to think of ways and means of handling the 50,000,000-bushel surplus of potatoes. One of the proposals made was that the Government, through UNRRA, purchase the 50,000,000 bushels. Now, that is Government subsidy—nothing else but Government subsidy.

Senator MCCLELLAN. If that is Government subsidy, if UNRRA has the money and we have already provided—UNRRA going to spend it, anyway—I don't see how you make a Government subsidy out of it.

Senator O'MAHONEY. Whether they do or don't have it——

Senator MCCLELLAN (interposing). They did not get it in connection with a potato deal?

Senator O'MAHONEY. No. But, as a matter of fact, UNRRA is out of money and is seeking an additional appropriation.

Senator WHERRY. Another problem there is under the reciprocal trade agreement which has permitted every Canadian farmer to get our domestic price——

Senator O'MAHONEY. That is beside the point.

Senator WHERRY. It is right on the beam. We are going to have agricultural surpluses because of the extension of the agreement in the cattle business and other products, because of that very fact.

Senator O'MAHONEY. Now, the Senator and I both voted against the trade agreement, so we are in no disagreement here. The fundamental fact is that the request is made for money out of the Public Treasury.

Isn't it possible—and that is the primary question—to find a formula which will make the free-enterprise system work? That is what we are seeking, and I am seeking it in the belief that if we do not make it work, the alternative will be a Government-operated system.

Senator WHERRY. It would be a dissolution.

Senator O'MAHONEY. I am talking in a much broader field.

Senator WHERRY. If it is a Government operation, that means subsidies.

Senator O'MAHONEY. I am talking much broader than Alcoa at the moment.

Mr. Wilson, I wonder if it would be possible for you to summarize the remaining portion of your paper so that we can finish with your presentation today, and then tomorrow give the other industry representatives an opportunity?

Mr. WILSON. I would like very much to be able to.

Senator WHERRY. Would the chairman entertain a unanimous agreement here to introduce a resolution to extend the time under which we are operating in which this policy of the Surplus Property Administrator becomes final if Congress doesn't take some action? Couldn't we extend that time for 30 days?

Senator O'MAHONEY. That would be a legislative matter, and it is beyond the jurisdiction of this group.

Senator WHERRY. I thought we might make a recommendation, and if they would join we might all be in agreement on it and give 30 days more to consider this thing. We are getting mighty short of time.

Senator O'MAHONEY. I feel it is so important to find a way of keeping these plants in operation if we can that it might be undesirable to do such a thing.

Mr. Wilson, do you think you can summarize the remainder of your presentation within the next 20 minutes or half hour?

Mr. WILSON. I can try to.

Mr. CASKIE. I want to get some idea of when I might be able to appear.

Senator O'MAHONEY. If we can finish this afternoon, then tomorrow morning at 10 o'clock we will open again and will be glad to call upon you.

Mr. CASKIE. I don't want to cut Mr. Wilson off.

Senator O'MAHONEY. There is a limit upon the time some of us Senators can devote to this, as well as you gentlemen.

Proceed, Mr. Wilson.

Mr. WILSON (continuing):

It might also be observed that the disposal plan has no justification in law for giving prospective competitors of Alcoa a first choice of plants and equipment. On March 12, 1945, Alcoa was adjudicated by the circuit court of appeals for the second circuit not to have a monopoly of bauxite, alumina, or any fabricated or semifabricated form of aluminum. It is quite discriminatory, therefore, to promulgate a plan, which subordinates Alcoa to its many competitors and potential competitors in the acquisition of any Government-owned facilities in any of these branches of industry.

Only in the aluminum-ingot market did Alcoa's size amount to a monopolization. Speaking of the aluminum ingot market, and no other, the circuit court of appeals determined that possession of 90 percent of the market amounted to a monopolization, that it was doubtful whether possession of 60 to 64 percent of the aluminum-ingot market could be so characterized, and that it was for the district court to determine what percentage short of 90 percent amounted to monopolization.

Alcoa no longer owns or operates anything approximating 90 percent of the aluminum-ingot capacity of the United States. Its percentage of the total ingot market will be further diluted by any imports of aluminum, leaving a wide margin within which it may acquire surplus Government ingot facilities without becoming of monopolistic size. The data in demonstration of this fact is found at page 43 of this letter.

Furthermore, the Government would have been protected in considering Alcoa's proposals concerning ingot-producing facilities, because they were conditioned upon obtaining the approval of the district court, thereby insuring you a judicial determination that such disposal did not violate the antimonopoly objectives of the Surplus Property Act. Otherwise, there would be no sale.

II. MISREPRESENTATIONS

Alcoa's position, in at least seven important respects, has been misrepresented in the Surplus Property report.

1. Alcoa has never offered to buy plants to remove the Government from the aluminum industry.

In discussing the so-called noncompetitive program, the report states:

In these discussions, Alcoa made it clear that it did not need the Government plants but would take them in order to remove the Government from the aluminum industry."

That statement is wholly false. We possess less than 650,000,000 pounds of competitive ingot capacity, and the plants in which we evinced interest at the Government's solicitation would have increased our capacity only to 900,000,000 pounds under the terms discussed. This is substantially less than the market for aluminum which we believe our own highly trained and experienced sales organization can create. We could utilize these plants and were ready to negotiate for them, subject to court approval, without benefit of subsidy, had the program permitted us to do so.

We call your attention to the fact that three of the declared congressional objectives of the Surplus Property Act are to promote production, the employment of labor, and secure for the Government the fair value of the property sold, objectives which have gone into the limbo of forgotten purposes along with the goal of a peacetime economy of free, independent, private enterprise.'

2. The so-called noncompetitive plan was the Surplus Property Board's plan, not ours.

The Surplus Property Board presented three disposal programs and rejected two of them, the first, apparently, because it was at least partially acceptable to Alcoa. The impression was created that this was Alcoa's proposal; in truth, it was the suggestion of the representative of the Surplus Property Board. It was the representative of the Surplus Property Board—not Alcoa—who suggested that the Board or some other agency of the Government recommend to the district court that, so long as Alcoa did not occupy more than 75 percent of the domestic virgin aluminum market, such share should not be treated as monopolization.

The description in the report of the plan which this representative proposed to us is quite inaccurate. It was never the assumption, as is stated, that Alcoa's competition should consist mostly of Canadian imports. There was also to be domestic competition by Reynolds Metals Co., presumably by Olin Corp., and certainly by purchasers or lessees of the Government-owned aluminum smelting plants at Spokane and Troutdale. Under this plan, Alcoa's percentage of the domestic aluminum ingot market would necessarily have been well below the percentage which the circuit court of appeals indicated would be proper.

The report neglects to state that we advised that our participation in the plan was dependent upon its approval by the district court.

The Board's representative persuaded us to agree to accept very substantial sacrifices in the interest of achieving a soundly competitive industry, all of which are carefully obscured in comments on the plan in the report. It will be time enough to analyze them when, and if, we are asked to share with others in the aluminum industry in the working out of a program for the industry.

While there is no purpose in discussing the merits of a plan which the Board both created and rejected, it could easily be shown that the objectives of the Surplus Property Act would be more nearly achieved under this plan than any other.

3. We have not been asked to help formulate or to cooperate with a disposal program.

It is stated that we have been verbally noncommittal and actually uncooperative with respect to a program to increase competition in the industry.

We were never consulted about, or advised of the Board's program prior to its submission to Congress. One of the Board's staff called upon us to inquire if we would make the concessions required of us in the disposal plan which the Board both initiated and rejected. At the same time that this representative was trying to sell us this program of the Surplus Property Board, another portion of the Board's staff appears to have been preparing the plan now sponsored in the Board's report to Congress.

Our advice was not sought nor was the sponsored program discussed with us prior to its submission to Congress. We are compelled to surmise from the Board's reaction to the rejected plan, which originated in the Board, that, had there been consultations between us on the present subsidy plan, our endorsement at any point would have automatically created opposition.

In the opinion of the circuit court of appeals it was suggested that the agency to dispose of the Government aluminum plants might well believe that it could not do so without some plan or design for the industry as a whole; that it would assign a place to Alcoa therein and that, if the agency found it wise to proceed in this way, it might succeed in inducing Alcoa to accept the place assigned to it, particularly if the plan had not been prepared ex parte, that is, if Alcoa had been permitted to join in the discussions.

We regret that, in preparing the plan which has been submitted to Congress, this constructive and statesmanlike suggestion of the court was not followed.

4. Our wartime leases of Hurricane Creek and Government-owned aluminum smelting plants have not complicated or delayed the disposal program.

Congress is advised to the contrary. What are the facts?

On August 30, 1945, the Reconstruction Finance Corporation—without warning—canceled all our remaining leases on Government-owned alumina and aluminum-smelting plants, effective October 31, 1945, and ordered the removal of our property from the premises by the latter date. The purported excuse for this cancellation was our failure to maintain production at 40 percent of capacity, a conclusion which was only reached by including the unused capacity of the Queens, Burlington, Riverbank, and Los Angeles plants, which had long since been closed at the order of the War Production Board. The terms of our lease did not require the Reconstruction Finance Corporation to pick this particular time for cancellation, as incorrectly alleged; its rights were equally effective at any time.

It seemed to us more than a little harsh that we should be thus summarily evicted from the plants which we had built for the Government, without fee or profit to ourselves, and from which the war effort had received tremendous quantities of aluminum and the Government had recovered nearly $20,000,000 in cash returns from operations.

But we closed the plants as we were required to do in order to remove our property, as nearly as possible, by October 31. A few days later the Reconstruction Finance Corporation asked us to sell to it at soct the stored supplies and spare parts, as well as raw and in-process materials at these plants, and to make available any equipment or processes previously used in these plants. This we agreed to do. The correspondence is attached to the report.

A new 60-day lease was offered us. We declined, because no manufacturing operation can be run on a 60-day basis. No corner grocery store could do it. The procurement and shipment of raw materials, the ordering and storing of supplies, the scheduling of the production, the recruiting of labor, and the development of contiguous markets are all undertakings which are only possible over a much longer period than 60 days. It is difficult enough to close a plant in 60 days, much more so to operate one on such a schedule.

Our leases have not delayed the Board. They were canceled within less than 3 weeks after the end of the Japanese war, before any of the plants had been declared surplus. The disposal plan cannot become effective, in any event, until 30 days after its submission to Congress, a period which has not yet elapsed. Even after that, the plan must be implemented with actual leases or sales. The cancellations become effective at the end of this month.

5. Alcoa has cooperated in plans for the Hurricane Creek alumina plant.

The report states that the key to any disposal plan lies in bringing a new producer into the Hurricane Creek alumina plant who will manufacture alumina and make it available to operators of Government smelting plants at or near Alcoa's cost. It is charged that Alcoa has not been cooperative. The record is exactly to the contrary.

Alcoa was required, under paragraph 18 of its Hurricane Creek lease, to keep cost and selling records which were to be available to Defense Plant Corporation for audit and inspection at all times. This was done. The accuracy of the records is not questioned; and a summary of this cost data in the report is proof that they have been made available to the Government and, thereby, to any prospective purchaser.

Although the manufacture of alumina by the Bayer process is an old, well-known, and unpatented process practiced by many companies for a great many years, Alcoa was requested to furnish instruction to unidentified nominees of the Reconstruction Finance Corporation. This request was declined, both because such tutoring was unnecessary and because it would have involved turning over keymen in our organization to others.

However, we submitted a proposal to you under date of July 24, 1945, which would have permitted the efficient operation of Hurricane Creek for the benefit of any and all of our competitors. Competitors would have been fully protected, because the Government would have retained title to the plant and control of the policies of operation. We would have operated it with bauxite furnished either by us or by others, as the Government might elect, and would have sold alumina to whomever and at whatever fair prices the Government directed. And we did not seek any subsidy or any guaranty against losses. Here is the finest possible evidence of our willingness to furnish personnel, know-how, and bauxite, in order to provide alumina for competitors in whatever quantities and at whatever price the Government might set.

A copy of our proposal follows:

JULY 24, 1945.

Mr. W. STUART SYMINGTON,
Chairman, Surplus Property Board,
Washington, D. C.

DEAR MR. SYMINGTON: We have been asked by several friends and associates in the State of Arkansas whether we desire to acquire, and continue to operate, the smelting plant in Arkansas known as Jones Mills and the alumina plant in Arkansas known as Hurricane Creek. We feel that the proper way for us to declare ourselves on this point is to address you.

Consequently we advise you that, under mutually satisfactory conditions as to price, terms, etc., the determination of which we anticipate will present no real difficulties, we would be glad to purchase the smelting plant at Jones Mills. The only condition which at the moment occurs to us as to Jones Mills is that, as is obvious, any purchaser of Jones Mills must be first assured of a continued supply of natural gas. We are, of course, aware that any acquisition of this plant requires the approval of not only your Board but other authorities.

With respect to the alumina plant at Hurricane Creek, we would like to buy it; but if the United States Government would prefer to retain title to it, we would be glad to operate it under lease. If we operated it for the Government, we would expect the Government to provide, either by purchase from us or from others, the necessary bauxite, and we would also expect the Government to retain the right to establish the price at which the alumina will be sold to us and to other plants as dictated by the Government, whether Government-owned or privately owned plants.

It is our opinion that operation of Jones Mills and Hurricane Creek plants should be under one jurisdiction, and consequently we add that we would not consider it feasible for us to acquire Jones Mills without at the same time acquiring or leasing Hurricane Creek.

We have had several conversations with Mr. Gordon Reed, of your organization, and have disclosed to him the general contents of this letter.

We have given consideration but have not as yet arrived at a conclusion as to the acquisition or continued operation of any other Government-owned alumina, smelting, or fabricating plants; but as the plans of the Surplus Property Board as to their disposal and as our own studies are completed, we will hope to have the opportunity of presenting to you our interest with respect to one or more of the other plants just referred to.

If there is any further information which we can give you along this line, we would be glad to do so, and with kind regards, we remain,

Yours very truly,

ARTHUR V. DAVIS.

In that connection, I would state that we are prepared to make another offer for a lease of the Hurricane Creek plant which we formulated sometime ago, and which I will read into the record, if I may. I

happen to be reading from a teletype which we sent to Mr. Hall under date of October 9, if he should have occasion to make use of it in Washington. [Reading:]

Alcoa will lease for a 5-year period the Hurricane Creek plant subject to cancellation by either party on 1 year's notice. The Government may at any time remove any part or all of the electrolyte plant now located on the land herein contemplated to be leased. Alcoa will pay as rental, including depreciation, for the Hurricane Creek plant, three-eighths of a cent for each pound of alumina manufactured in and shipped from the plant and will guarantee a minimum rental of $1,000,000 a year. Alcoa will pay insurance and taxes. Alcoa will purchase from the independent Arkansas producers such portion of the Hurricane Creek plants' requirements for bauxite as those producers may desire from time to time to furnish at competitive prices. To the extent those producers do not furnish the full requirements of the plant for bauxite, Alcoa will purchase from the Reconstruction Finance Corporation such bauxite as the Reconstruction Finance Corporation may desire to furnish at competitive prices from its so-called stock pile or elsewhere. Alcoa will undertake to supply the remainder of the bauxite requirement of the Hurricane Creek plant. Alcoa will sell the alumina produced at the Hurricane Creek plant to such aluminum producers, including Alcoa, as the Government from time to time may direct in carload lots f. o. b. Hurricane Creek at the same price to all purchasers, such price to be computed annually by averaging any amount shipped from the plant in that year up to 400,000,000 pounds at 2 cents per pound, the second 400,000,000 pounds at 1.9 cents per pound, and the third 400,000,000 pounds at 1.8 cents per pound, and any amount over 1,200,000,000 pounds at 1.7 cents per pound. The above selling price is understood to include reimbursement to Alcoa for the use of any of its patents.

Senator McCLELLAN. Will you read that last sentence again?

Mr. WILSON (reading):

The above ceiling price is understood to include reimbursement to Alcoa for the use of any of its patents—

in connection with the production of that alumina.

Senator McCLELLAN. That is the over-all total cost?

Mr. WILSON. That would be the price to the purchaser?

Senator McCLELLAN. Has that been submitted to the Surplus Property Board?

Mr. WILSON. That has not been submitted, and we are taking this opportunity to submit it indirectly, because we have not had an opportunity to submit it directly to either the RFC or the Surplus Property Board.

Senator McCLELLAN. Does the Government control that price, or are you offering to sell on that basis?

Mr. WILSON. We are offering to lease the plant under these terms, under which we would guarantee these prices.

Senator McCLELLAN. What about the distribution of it to consumers of alumina?

Mr. WILSON. Here is what this says on that point:

Alcoa will sell the alumina produced at the Hurricane Creek plant to such aluminum producers, including Alcoa, as the Government from time to time may direct.

In other words, the Government can nominate who this shall be sold to.

Senator McCLELLAN. You mean it could supervise and control the distribution with respect to different competitors?

Mr. WILSON. That is correct.

In other words, our thought was that this would insure a supply of alumina to any purchasers of the Government-owned smelting plants on this basis.

Mr. BERGE. You are setting the Government up there as a regulatory body to determine who will get the alumina for competitive smelting operations?

Mr. WILSON. Within the capacity of the plant.

Senator O'MAHONEY. What agency of the Government do you imagine would exercise that regulation?

Mr. WILSON. I would presume it would be the RFC under the lease terms.

Mr. HICKMAN. We really think that is a most constructive suggestion.

Senator O'MAHONEY. Of course, it is a suggestion for Government participation in regulating distribution.

Mr. WILSON. And with the idea that it would insure a purchaser of a Government smelting plant, when he made his deal with RFC, that he would be allocated his requirement out of this Hurricane Creek plant.

Senator O'MAHONEY. Let the record show that Alcoa, by this offer, is inviting the Government to exercise a supervisory power it has never before exercised, except for purposes of war.

Mr. WILSON. That is correct.

Mr. TROY. I just want to ask whether Alcoa would purchase the Jones Mills plant, the reduction plant, if somebody operated the alumina plant and purchased the alumina from the other operator.

Senator O'MAHONEY. This is an offer for the Hurricane plant alone.

Mr. WILSON. And, presumably, would be a part of a general program. One reason this hasn't been submitted is because we believe that any arrangement for these Government plants, so far as Alcoa is concerned, must be a general program.

Senator O'MAHONEY. It must involve the others as well, because otherwise you would be in danger of dissolution.

Mr. WILSON. This is merely chapter 1 of a program that we would like to discuss, and we will have chapter 2 as to Jones Mills, or chapter 3 as to Troutdale, or chapter 4 as to Mead.

Mr. TROY. The point I was trying to make was whether or not Alcoa would be willing to purchase alumina from any other purchaser—whether they will buy alumina from a producer of the Hurricane Creek plant if they operate the Jones Mills plant, which would make it economical for them to buy it at a low price?

Would they be a buyer for that material?

Mr. WILSON. We will buy any material that will be sold to us more cheaply than we can make it ourselves.

Mr. MOMENT. At that price you offer?

Mr. WILSON. If that is cheaper than we can make it ourselves under those conditions; yes.

Mr. MOMENT. The record ought to show, Mr. Chairman, that the current costs of production under Alcoa's operation at the Hurricane Creek plant, mill costs, including certain items, are now in the past few months less than $28 a ton. If those other items are added, we have estimated they would not bring it much above $30, and the first price that Mr. Wilson has mentioned is $40 a ton to an outsider, scaling down to $34—was it?

Mr. WILSON. $34; yes.

Mr. MOMENT. There are certain minor adjustments that should be made in the figures I have quoted, but they would not, in our opinion, materially change the competitive problem involved there.

Senator O'MAHONEY. I suggest that copies of the proposal be made available to the Surplus Property Board. This committee, of course, is glad to have it in the record.

Now, will you proceed, please?

Mr. WILSON (continuing):

6. The Government—not Alcoa—determined the location and size of the Government plants.

We challenge, as wholly incorrect, the argument that Alcoa was largely instrumental in locating the Government plants and in dictating their size. These prerogatives were reserved to the Government in the contracts under which the plants were built. The Government's rights were confirmed to the Truman committee, and they were exercised by it in reality. Alcoa's advice was only given when it was sought. Insofar as Alcoa was advised of the basis of decision with respect to plant locations, we understood that the availability of power and labor and the minimization of the hazards of shelling and bombing were generally decisive considerations. The size of the plants would appear to have been dictated by the economies in time, expense, and manpower incident to large-scale production. However, the Government aluminum smelting plants were built with a great variety of capacities, both large and small. The average capacity of each of the four Government-owned smelting plants which the report states are fully competitive is 137,000,000 pounds, contrasted with an average capacity of 165,000,000 pounds in Alcoa's privately owned plants.

Yet we have heard a great deal of discussion that these plants are too large. [Continuing:]

We do not criticize either the location or the size of the Government plants, but neither do we accept responsibility for them. The records on this subject are available but voluminous, and need not be reviewed here. Suffice it to say that you have been misinformed if you believe that Alcoa was dominant in the matter. If it ever becomes material to prove this fact, we shall gladly submit documents and testimony to a congressional committee or any other duly constituted body that may care to investigate the matter.

7. Alcoa has not, cannot, and will not influence the sales policy of the Aluminum Co. of Canada.

The report states that Alcoa executives have revealed to a representative of the Surplus Property Board "their intention to have the Canadian company export to the United States whatever amounts of primary aluminum will reduce the percentage of the American markets supplied by Alcoa below any level that may be decided in the case yet pending in court to constitute a violation of the antitrust law."

Just how Alcoa executives are supposed to have "indicated their intent" to such representatives, we do not know; but we do assert with complete confidence that Alcoa never had such an intention, that it has no means of effectuating such an intention had it been entertained, and that no executive of Alcoa ever made a statement to a representative of the Surplus Property Board to the above-quoted effect. We ask the name of the Surplus Property Board representative, the names of the Alcoa representatives, the place and time of the meetings, an accurate recital of what is claimed to have been said; or, in all fairness, a retraction.

The report implies that the sales policy of Aluminum Co. of Canada may be dictated by Alcoa, in the statement that the Canadian company "would be a very serious competitor if its sales policy were dictated by Alcoa and sales were deliberately pushed as a device to reduce Alcoa's share in the United States market in relation to a court antitrust decision."

That decision—which carries the affirmance of the Circuit Court of Appeals for the Second Circuit in this respect—found it to be the fact that there was no agreement or understanding between these companies in any respect whatsoever and, specifically so, with respect to sales in the United States market. The circuit court of appeals, in affirming this conclusion, summarized the matter in this fashion:

"Upon the whole evidence the judge found that by 1935 Limited had become altogether free from any connection with Alcoa and that Alcoa had had no part in forming the Alliance, or in any effort at any time to limit imports, to fix their price, or to intervene in price fixing cartels in Europe—except the early ones" (pre-1912).

Why, then, the assumption that Alcoa may be in a position to dictate the sales policies of Aluminum Co. of Canada, a wholly owned subsidiary of Aluminum, Ltd.?

The report repeatedly refers to Aluminium, Ltd., or its subsidiary, Aluminum Co. of Canada, as an "Alcoa affiliate," although both the district court and the circuit court of appeals ruled that Alcoa bore no such relationship to either Canadian company. This decision was made, not on the basis of any legal technicality but after taking months of testimony concerning the ever-lessening extent to which there is common-stock ownership as well as the commercial and corporate relationships between the two companies. The report completely ignores the court's decision, when it asserts that Alcoa "* * * has the powerful competitive weapon of low-cost Canadian aluminum which it can move into world and domestic markets, despite the present United States tariff of 3 cents per pound."

The courts decided exactly to the contrary.

Mr. ANDERSON. I would like to make a statement to the effect that when these gentlemen were before the Senate Small Business Committee, we probed this problem in connection with the Shipsaw contracts. We then were not able to get anything like an up-to-date statement of the ownership in Aluminum, Ltd.

Since then, when I was instructed by the chairman of the committee to obtain the facts if possible, we corresponded with the Aluminum Co. of America, and I have a letter which I can place in the record to indicate their response. It didn't disclose, and they were in no position—according to their statement—to disclose, because they did not know the ownership of the Aluminum, Ltd., but since then we have been able to get from the records the 1939 ownership of common stock, and I would like to put in the record at this point something that may not answer the question as to whether there is not an affiliation or there is an affiliation, but it does show a very close communion of interests in certain families, some eight or nine families owning the majority of the Alcoa and Aluminum, Ltd., common voting stock.

Mr. HICKMAN. Are there detailed findings on that subject in the 1939 figures in the antitrust case?

Mr. ANDERSON. That is from where we have taken this particular item. It is the only one I know that is at least of that date. I have not been able to find anything later than that figure. If you people have it, we would be glad to have it for the record.

Mr. HICKMAN. We do not have it.

Mr. ANDERSON. It does show, whatever you interpret affiliation to be, a communion of interest in these very few families which is extremely marked.

(The statement referring to community of majority ownership of common stock of Aluminum Co. of America and Aluminum, Ltd., follows:)

COMMUNITY OF MAJORITY OWNERSHIP OF COMMON STOCK OF ALUMINUM CO. OF AMERICA AND ALUMINIUM, LTD. (OF CANADA)

As of January 2, 1939, the majority of the 1,472,625 shares of common stock of Aluminum Co. of America, and likewise of the 676,737 shares of common stock of Aluminium, Ltd., was owned by the following individuals, or members of their families:

	Holdings of Alcoa common		Holdings of Aluminium, Ltd. common	
	Number of shares	Percent of total	Number of shares	Percent of total
A. V. Davis (chairman of Alcoa)	168,049	11.4	74,299	11.0
E. K. Davis (president of Aluminium, Ltd.; brother of A. V. Davis)	14,689	1.0	8,498	1.3
Roy A. Hunt (president of Alcoa; includes shares of Maria T. and Rachael McM. Hunt)	75,948	5.2	34,290	5.1
George R. Gibbons (vice president of Alcoa)	14,394	1.0	4,026	.6
R. E. Withers (vice president of Alcoa; includes shares of Mary C. Withers)	5,898	.4	2,389	.3
Edw. S. Fickes (vice president of Alcoa, includes shares of Marguerite W. Fickes)	6,000	.4	2,288	.3
George H. Clapp (director of Alcoa; includes shares of Annie L. and Catherine D. Clapp)	53,370	3.6	5,281	.8
Andrew W. Mellon and R. B. Mellon families	514,122	34.9	228,163	33.7
Total of above	852,470	57.9	359,234	53.1

Senator O'MAHONEY. You will please proceed, Mr. Wilson.

Mr. WILSON (continuing):

III. THE SURPLUS PROPERTY BOARD'S REPORT MISREPRESENTS THE COMPETITIVE SITUATION IN THE ALUMINUM INDUSTRY

1. Alcoa controls 15 percent of the ingot smelting capacity of the world, not 64 percent, as is repeatedly represented.

It is repeatedly asserted that Alcoa controls Aluminum, Ltd., and that together they possessed 64 percent of the primary aluminum capacity of the world in 1944. We have previously pointed out that the courts have determined, on the basis of economic and corporate realities, that this control does not exist.

The calculation of 64 percent is reached, not only by attributing to Alcoa the control of Aluminum, Ltd., but the control of the very United States Government-owned smelting plants which are the subject of the report: It represents this Government-owned capacity as under Alcoa's control, on the tenuous premise that Alcoa operated these plants for the Government on short, cancelable, wartime leases, which were terminated several weeks before the report was filed. Alcoa's privately owned smelting capacity—and it now operates no other—is 15 percent of the world's capacity, while the capacity at the disposal of the Surplus Property Board is 23 percent of the world's capacity.

The representation to Congress and to prospective purchasers of the Government properties that Alcoa controls more than four times the capacity than it really has is inexcusable.

2. The bugaboo of unbeatable Canadian competition.

The bugaboo is raised of subsidized Canadian competition. We do not mean to minimize the efficient operations of the Canadian company, but the picture is greatly overdrawn in the report. It makes the speculative argument that Canadian aluminum can be manufactured and marketed, postwar, for between 7 and 8 cents a pound (presumably, it has yet to do so), contrasted with an estimate of 10 to 11 cents a pound for United States aluminum.

No foreign manufacturer has ever yet succeeded in capturing any large United States market. The present 3 cent tariff on imported aluminum more than wipes out any advantage in the low cost of manufacture which you attribute to the Canadian company, and Congress can give further protection at any time it is needed.

It is our understanding that neither the Canadian Government nor the United States Government has invested one cent in the Shipshaw power project in Canada, which contracts with a large United States Government investment in power projects in the Pacific Northwest, from which three of the Government-owned aluminum smelting plants obtain power.

This Pacific coast Government-owned saves a prospective lesee or purchaser of a Government-owned aluminum smelting plant the necessity of investing millions of dollars in the development of water power—an opportunity which Alcoa did not have when most of its facilities were built.

3. The circuit court of appeals did not attribute Alcoa's position in the aluminum ingot market to improper trade practices.

The report warns anyone contemplating the lease or purchase of a Government plant that Alcoa is a destructive competitor. What are the facts?

The only point at which the circuit court of appeals criticized Alcoa's conduct in the ingot market was its practice of building additional facilities whenever necessary to meet the increased demands of a growing industry. This involved no moral dereliction on Alcoa's part, and the court said so. The court's precise criticism of Alcoa was this:

"We need charge it with no moral derelictions after 1912; we may assume that all it claims for itself is true. * * * It was not inevitable that it should always anticipate increases in the demand for ingot and be prepared to supply them. Nothing compelled it to keep doubling and redoubling its capacity before others entered the field. It insists that it never excluded competitors, but we can think of no more effective exclusion than progressively to embrace each new opportunity as it opened, and to face every newcomer with new capacity already geared into a great organization, having the advantage of experience, trade connections and the elite of personnel."

We do not quarrel with this finding of the circuit court of appeals; we simply point out that the indictment is that Alcoa was an efficient operator who made it a point to build facilities necessary to supply any new market which it was able to create. Contrary to this position, the Attorney General criticizes us in his report to Congress, under date of September 11, 1945, for not having created sufficient facilities to meet the unprecedented demands of war. It seems to be one of those cases where Alcoa is wrong no matter what it does.

Is it true, as asserted, that a prospective competitor would meet ruthless competition from Alcoa? The district court which heard many of Alcoa's competitors testify on this subject, said, in its opinion:

"The astonishing thing is the great number of witnesses who appeared on the stand, competitors as well as customers of Alcoa, who have completely exculpated Alcoa from blame and have praised its fairness as well as its helpfulness to the aluminum industry."

The court further found:

"A further consideration favorable to the competitive position of the Aluminum Co. of America in the manufacture of virgin aluminum in the United States at all times since February 2, 1909, has been its consistent policy of helpfulness to competitors and customers alike. The benefits of its research organization and its engineering and technical staff have been made available generally to competitors and customers and without cost to them. Aluminum Co. of America has followed the practice of exhibiting and explaining to competitors and customers its equipment and manufacturing technique and has passed on to such persons the benefits of its experience, all without charge to them."

Why not tell prospective lessees or purchasers of Government plants that Alcoa's record is as above described?

SUMMARY

Everyone realizes the viciousness of subsidizing a private operator with public funds. It is not only a waste of the taxpayers' money, it is a diversion of public money to private use. Everyone realizes that he who pays the piper will call the tune. If the Reconstruction Finance Corporation subsidizes the operators of Government plants, it will control their raw materials, their manufacturing costs, and their sales programs. Through these subsidized private operators, the Reconstruction Finance Corporation will also largely control the policies of the competitors of such subsidized operators.

Subsidies are wholly unnecessary in the aluminum industry. Raw materials are available in unlimited quanties at competitive prices. The manufacture of aluminum is not controlled either by patents or secret processes. Government-owned facilities represent the last word in efficient equipment. Government-owned plants form the largest single aluminum enterprise in the world. They are admittedly in good balance and capable of operation on a competitive basis. The fact that Alcoa offered to buy several of these properties without benefit of subsidy or other favor and operate them in competition with its own plants, with the facilities of Reynolds Metals Co., Olin Corp., the foreign producers, and whoever might obtain other Government plants is a most convincing demonstration that subsidies are not needed. Subsidies are being sought by interests which are out for all they can get. Of course they will claim an inability to operate without subsidies as long as there is a chance that anyone is gullible enough to believe it and argue their case for them in a report to Congress.

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If the present plan should be withdrawn for further study and you should desire to include us, with other representatives of industry, in your discussions and in the preparation of a workable disposal program, we shall welcome the opportunity to cooperate with you. You will recall that it was the recommendation of the Circuit Court of Appeals for the Second Circuit that your disposal program should not be prepared ex parte but, rather, after consultation with all whose interests were involved, including Alcoa. We cannot help but feel that the indefensible subsidy program has resulted largely from the fact that the advice of the court was not followed.

In view of the fact that the report of the Surplus Property Board was submitted to Congress and widely publicized in the press, facilitated by a press release, we are making copies of this letter available, insofar as possible, to the same parties.

Yours very truly,

ALUMINUM CO. OF AMERICA,
By J. R. D. HUSTON, *Secretary.*

(The appendix to Mr. Huston's letter is as follows:)

APPENDIX

SOME BASIC FACTS ABOUT THE ALUMINUM INDUSTRY

A. Proportion of United States aluminum industry owned by Government

The United States Government has $672,000,000 invested in 50 wholly owned aluminum plants and $30,000,000 more in other aluminum facilities, title to which is held almost entirely by Reconstruction Finance Corporation. By contrast, Alcoa's net investment in plants and facilities—much older on the average than the Government properties—is to be $474,000,000, a substantial portion of it borrowed money.

This investment gives the Government the ownership of a controlling segment of the aluminum industry of the United States, as is shown by the following table, reproduced from the report of the Surplus Property Board:

Product	Percentage of entire United States capacity owned by the Government	Product	Percentage of entire United States capacity owned by the Government
Alumina from bauxite	52.2	Castings—Continued	
Alumina from other ores	100.0	Permanent mold	4.0
Primary aluminum	57.9	Cylinder heads	69.4
Sheet, strip, and plate	40.5	Extrusions:	
Rolled rod and bar	44.3	Rod and bar	59.2
Tubing	15.8	Shapes	45.4
Forgings	44.7	Tube blooms	20.0
Castings:		Rivets	25.1
Sand (excluding cylinder heads)	10.3	Powder	69.3

NOTE.—Everyone concedes that these facilities are modern in every respect and in good balance.

B. Ownership of aluminum smelting facilities in the United States

	Productive capacity	Percentage of total capacity
	Pounds	
United States Government	1,360,752,000	57.9
Reynolds Metals Co	161,730,000	6.9
Alcoa	828,127,000	35.2
Total	2,350,609,000	100.0

Source.—These figures are taken from the report of the Surplus Property Board, page 94.

C. Ownership of aluminum smelting facilities in the United States capable of fully competitive operation

	Maximum economical capacity	Percentage of total capacity
	Pounds	
United States Government	552,000,000	40.4
Reynolds Metals Co	162,000,000	11.9
Alcoa	650,000,000	47.7
Total	1,364,000,000	100.0

Source.—These figures in tabulation C are taken from the report of the Surplus Property Board, p. 33, except that the small Tacoma plant is added to the Government's facilities because of the recognition elsewhere (pp. 29–30) that the plant in proper hands should be capable of competitive operation; and Alcoa's capacity, like the Government's, is reduced by eliminating wartime capacity that was only possible on the basis of wholly uneconomical power and other productive facilities utilized in wartime because of the urgency of obtaining maximum production regardless of cost.

D. World aluminum productive capacity

[In metric tons]

	Productive capacity	Percentage of total capacity
U. S. Government	606,300	23.5
Alcoa	389,200	15.1
Others	1,577,100	61.4
Total	2,572,600	100.0

Source.—These figures are taken from the report of the Surplus Property Board, pp. 88–89, 93.

Despite these undisputed figures, prospective purchasers of the Government-owned aluminum smelting plants are repeatedly warned that Alcoa controlled 64 percent of the primary aluminum capacity of the world in 1944 by the legerdemain of treating the United States Government-owned aluminum smelting plants as though they belonged to Alcoa and by adding to this distorted figure the productive capacity of Aluminum, Ltd.—which we believe is erroneously computed—on the oftrepeated pretext that Aluminum, Ltd., is an "affiliate" of Alcoa, although the Federal courts held exactly the contrary in the Alcoa antitrust action after exhaustive investigation of the charge.

E. World bauxite reserves

[In metric tons]

	Reserve capacity	Percentage of reserve capacity
United States	35,000,000	3.3
Dutch Guiana	54,000,000	5.1
Remainder of Western Hemisphere	185,000,000	17.5
Reserves elsewhere	882,000,000	74.1
Total	1,056,000,000	100.0

Source.—These figures are taken from the report of the Surplus Property Board, pages 132–133.

Alcoa owns no reserves except in the United States and Dutch Guiana. It is impossible to estimate either Alcoa's tonnage of reserves in Dutch Guiana or their percentage of the total, due to the limited extent of geographic and geological exploration and the fact that much of the country is covered by dense jungle. The reserves of high-grade bauxite in the United States are estimated by you to be no more than 5,000,000 to 7,000,000 tons, which is not more than a 2-year supply for peak war requirements. As early as 1940, Alcoa owned less than half of these dwindling Arkansas reserves, a tonnage which would be exhausted in 8 years at Alcoa's 1939 rate of aluminum production.

MR. WILSON ANSWERING ATTORNEY GENERAL SAYS APPEAL TO CONGRESS TO DISSOLVE ALCOA IS NOT AN APPEAL TO ENFORCE ANTITRUST LAWS

Mr. WILSON. I would like to make a few comments on the Attorney General's report, in that I would not want him to feel that we had slighted him by giving Mr. Symington a printed report and paying no attention to his, and I will not take but a moment.

(NOTE.—Page citations in Mr. Wilson's comment on Attorney General's report are page numbers as contained in Attorney General's report to Senate, September 19, 1945, Doc. No. 94.)

Mr. WILSON. A drastically lowered price of aluminum and multiple sources of supply are the twin prerequisites of a postwar aluminum market sufficient to absorb the output of the privately and publicly owned aluminum plants (pp. 45–47), according to the report of the Attorney General under date of September 11, 1945. He points to large postwar markets (pp. 49–57) which he asserts can absorb from two or three and one-half billion pounds of aluminium in the automotive industry alone (p. 49) if these conditions are met. He mentions 10 cents a pound as the selling price of aluminum required by one automobile manufacturer (p. 47), 4 cents a pound less than the present price of pig aluminum and approximately half the prewar price. The Attorney General would bring about the desired competitive situation by breaking up Alcoa into a series of smaller companies, apparently on some theory of regional clusters of plants (pp. 74–77). These new companies and Reynolds Metals Co. would each be expected to purchase Government-owned facilities in the region (pp. 76–77) to the end that there might ultimately be created what is described as "clusters of small enterprises making finished aluminum products * * * around these cores of basic production" (p. 66).

The appeal to Congress to dissolve Alcoa is not an appeal for the enforcement of the antitrust laws. That function has been entrusted to the courts under our system of Government and has been discharged by them with singular fidelity through the years. The courts have only recently passed upon the issue of whether Alcoa is a monopoly and have decided that it is not, with respect to bauxite, alumina, water power and each and every one of the fabricated form of aluminum. Only in the field of aluminum smelting was Alcoa held to have had a monopoly in 1940 when its percentage of the domestic market was some 90 percent of the total. This was before Reynolds Metals Co. entered the field. The court directed that dissolution should not be considered until the Surplus Property Board had disposed of the Government-owned aluminum plants and the district court given an opportunity to evaluate the competition in aluminum smelting offered by the Reynolds Metal Co., by the operators of the Government-owned plants, and by the foreign producers. The court explained that:

> Dissolution is not a penalty but a remedy; if the industry will not need it for its protection, it will be a disservice to break up an aggregation which has for so long demonstrated its efficiency.

The Attorney General is recommending the dissolution of Alcoa because it is the lowest cost producer in the industry. If that is not his reason, he is appealing to Congress to supersede our courts which have already passed upon the monopoly question. We know that the Attorney General is not trying to supplant the courts on the monopoly question. We know with equal certainty that he is asking for a sentence of corporate death on Alcoa for the unique reason that it is so

efficient and such a low-cost producer that it will be quicker and easier to break up the enterprise than to find another company willing to spend the time and money necessary to create an equally integrated low-cost operation. We know that this is his position because he says so (pp. 74–77). He points to Alcoa's bauxite, to its hydroelectric plants, to its fleet of ships that bring imported bauxite to the United States and to the well-chosen location and size of Alcoa's plants as serious competitive obstacles (pp. 58–66). He labors the question of comparative costs (A35–58) by contrasting Alcoa's privately owned plants between 1926 and 1937 (A58) with the artificially high wartime costs in the Government-owned plants (A48–56). Just why Alcoa's own wartime costs are not used as the basis of comparison is not explained. The Attorney General nowhere states that another company could not do what Alcoa has done; he simply argues that it would be shorter and easier to break up Alcoa than to build up another company capable of competing in bauxite, ships, railroads, fluorspar mines and electrical transmission lines (p. 74).

The report argues that unless Alcoa is broken up it can manufacture aluminum in the postwar years at a mill cost of between 7 and 8 cents a pound. This is before depreciation, overhead, and taxes, and after deducting subsidiary profits accruing out of the company's fully integrated operation (A45–46, 58). If this figure is correct it is apparent that when depreciation, overhead, taxes, and selling and shipping expenses are added, it will be difficult to sell aluminum pig or ingot at 10 cents per pound in the foreseeable future. It will be plainly impossible if Alcoa is to be dissolved, its fully integrated position destroyed, its operating efficiency impaired and that impairment aggravated by the requirement that the small units which have been broken off from the parent absorb contiguous Government-owned facilities for the purpose of creating clusters of small enterprises. This plan will necessarily involve a marked increase in costs and selling prices because it will require production at plants which the Attorney General contends have higher costs than Alcoa's and it will destroy much of the operating economy that now flows from Alcoa's integrated operation.

Thus the Attorney General makes a complete circle. He starts with the premise that markets can only be created by lowering even the present low prices of aluminum. Arguing that the Government plants cannot compete with Alcoa even at the present price structure, he would break up Alcoa in order to put Government plants on a parity with it. This required merging of the efficient with the inefficient, the high-cost with the low-cost, and the artificial severance of the composite unit into a number of regional clusters of small enterprises necessarily results in higher prices both because of the inclusion of the higher cost operations and because of the destruction of Alcoa's integrated operation. These higher costs will defeat the possibility of achieving the enlarged aluminum market that the Attorney General recognizes as required to utilize the present aluminum facilities of the Government, Reynolds Metals Co., and Alcoa.

TRUE ROAD TO COMPETITION IS NOT TO BREAK UP ALCOA BUT TO FIND OTHERS WHO ARE "WILLING TO DO WHAT ALCOA HAS DONE"

The true road to competition lies not in breaking up Alcoa, but in finding someone who is willing to do what Alcoa has done, namely to

invest money, time, enterprise, and imagination in the creation of an organization. The raw materials are readily available, the manufacturing process is unpatented and well known and markets are available to those who are willing to put the necessary research and industry into their creation. The Reynolds Metals Co. has proven that it can be done today as well as 50 years ago. Judge Francis G. Caffey summarized the matter in this way (p. 306) in the antitrust case:

> * * * anyone possessing the four cardinal tangible elements of intelligence, industry, courage, and money or credit is and has been able, with confidence, to go into the production of virgin aluminum. Anyone in the United States outfitted with the four prerequisites I have mentioned is now free, and, since the expiration of the Bradley patent in 1909, has been free, to produce virgin aluminum. All such a person needs, or for 30 years past has needed, in addition are bauxite * * * and water power * * *. No one stands in his way or, so far as has been shown, unless armed with a patent has ever stood in his way of obtaining eitheir bauxite or water power or of his producing aluminum therefrom. He may encounter competition in buying bauxite or water power, but such competition is unobjectionable.

In closing, I would merely like to repeat what I said before the Small Business Committee. I will quote from the interim report which quotes from my testimony:

> Alcoa believes that the policy with respect to the retention or disposal of Government-owned aluminum plants should be determined by the Congress on the basis of what is best for the people of the United States. The money that built these plants was supplied by the taxpayers as part of the war effort. These plants are now devoted to war purposes and must continue to be so used as long as necessary. After that they should be used for the development of an expanding economy that will provide their share of the jobs necessary to keep America prosperous. Insofar as Alcoa can fit into any such program that is decided upon by Congress, Alcoa will do so. Whenever and to the extent that Alcoa cannot be of help, then Alcoa will step aside.

Senator McCLELLAN. I know the hour is late, but I want to ask some questions along the line that I asked of Mr. Symington and others.

Senator O'MAHONEY. Very well, Senator McClellan.

MANNER OF CLOSING ARKANSAS PLANTS QUESTIONED BY SENATOR MC CLELLAN.

Senator McCLELLAN. I am very much interested in trying to determine why it hasn't been possible to keep the aluminum and alumina plants in Arkansas in operation during this interim period.

I will preface my questions by saying in the first place that I think both Alcoa and the Surplus Property Board or the Defense Plant Corporation owed some duty to those communities and to the country, to the welfare of the country, to keep these plants open and operating during this interim period.

I would first like to ask you whether you had any notice of the cancellation of this contract from the Surplus Property Board or the Defense Plant Corporation prior to the time that you received the letter notifying you of cancellation? Did Alcoa have any previous notice?

Mr. WILSON. The question as to whether a cancellation notice would be sent to Alcoa was discussed with some Alcoa representatives, and we understood it would not be sent until the matter could be discussed further. We expected that, but before we had any such discussion, a cancellation notice was received by us.

Senator McCLELLAN. Was there any time prior to the cancellation notice when there was any discussion between you or your representatives and either of these Government agencies, the Surplus Property Board or the Defense Plant Corporation, with respect to what agreement you might reach or upon what terms you might be able to keep these plants operating in the event a cancellation notice was given?

Mr. WILSON. No, sir; not at all.

Senator McCLELLAN. Were you ever approached by either of these agencies in any way with respect to the terms of an interim operation prior to the time that they gave the notice and said they would modify the contract and lease it on a year's basis subject to a 60-day cancellation clause?

Mr. WILSON. No. The first indication we had of anything was the formal notice of cancellation.

Senator McCLELLAN. When you got the notice and they did say in the letter that they were anxious that the plants might be kept operating and offered you the terms and conditions of a year's lease with 60 days' cancellation, did you then make any effort to reach any agreement with them by which the plants might be kept operating.

Mr. WILSON. It was discussed with their counsel merely in passing. There was no what I would call negotiations in regard to it.

Senator McCLELLAN. What was your objection in regard to the 60-day provision?

Mr. WILSON. We could not get out of a plant like Hurricane Creek in a 60-day period.

Senator McCLELLAN. Well, you are getting out, aren't you?

Mr. WILSON. We are not getting out because after they had canceled, and we shut the plant down and started to ship out our materials that were in the plant, they offered to buy them. So that permits us to vacate as long as we do leave our materials there.

After giving us the cancellation notice by which we were to vacate the property within 60 days, they telegraphed and asked would we sell them the materials and supplies at the plants.

I called Mr. Husbands to find out what of the materials and supplies they proposed to buy, and as I put it to him, "You kick us out bag and baggage, and now you just want to kick us out and keep our baggage; is that right?"

And he said, "Yes; that is it."

But we couldn't have gotten our baggage out in 60 days, if I may continue the metaphor.

Senator McCLELLAN. Assuming that that is correct, that you couldn't close up the plant in 60 days, and take your baggage with you, using that expression, did you make any counterproposal with respect to the length of time you could do that, in an effort to keep the plants operating during this interim period.

Mr. WILSON. It was discussed, as I say, between counsel, and Mr. Hickman was our representative. He can better tell you first-hand.

Senator McCLELLAN. I want to determine why these plants are now closed and not operating, as far as I can, and where the fault lies.

Mr. HICKMAN. I had two conferences, one with Mr. Goodloe and on the next day with Mr. Goodloe and Mr. Cox, representing the Reconstruction Finance Corporation, and the Surplus Property Board. Both of these conferences were the week after the notice of cancellation had been given.

Along with the notice of cancellation was an informal letter dated August 30, which is set forth at page 130 of the printed report of the Surplus Property Board which Mr. Goodloe gave to Mr. Davis. In that letter he made this statement, and I am quoting from the report:

> We are perfectly willing, and indeed are anxious, to discuss the matter with you—

that is this cancellation notice—

> and your attorneys, and if possible to adjust the whole matter on an amicable basis.

Senator McCLELLAN. That is how long after the notice was given?

Mr. HICKMAN. This statement was sent concurrently with the notice of cancellation. This was a more or less informal private letter to Mr. Davis. I followed it up the next week. That was 3 or 4 days afterward, before we had accepted the letter of cancellation.

I went over to Mr. Goodloe's office and called attention to that sentence. I said, "We are just as anxious as you are to work things out on an amicable basis. What was on your mind?"

Senator O'MAHONEY. May I interrupt to ask when you use the phrase "more or less private," do you mean to intimate that it was not an official letter?

Mr. HICKMAN. Oh, no. If you look at it, you will see it is written on a cordial, personal basis, but it was an official letter.

Senator O'MAHONEY. Of course the impression I got yesterday from the testimony that was offered then was that the Government, in self-protection, was rather compelled to send the cancellation, and then wanted to negotiate.

Mr. HICKMAN. I just want to tell the Senator what the conversation was.

Senator McCLELLAN. The legal notice was in legal form and effect.

Mr. HICKMAN. Yes; and there was this informal letter to the effect that they would be glad to discuss the matter with us and our attorneys, and if possible adjust the whole matter on an amicable basis.

Mr. GOLDSCHMIDT. May I ask a question, Mr. Chairman?

Senator O'MAHONEY. Mr. Goldschmidt.

Mr. GOLDSCHMIDT. At the time you saw Mr. Goodloe, following the letter that accompanied the notice, had you already begun shutting down those plants?

Mr. HICKMAN. No; we had not. That whole question was wide open at that time.

Mr. GOLDSCHMIDT. In other words, there had been no shutdown at all of the Government-owned plant operated by Alcoa, and the pot lines were still being operated by Alcoa before the conversations between you and these representatives?

Mr. HICKMAN. Yes; that is right.

Mr. ANDERSON. I thought Mr. Wilson testified, in answer to a question I raised earlier, or I am sure someone did who had responsibility, that there was a partial shut-down that had occurred during the summer months. I know that we in the Small Business Committee had been fighting hard at various times during the spring and summer to get the Troutdale pot lines reopened.

Mr. HICKMAN. That wasn't the question asked down here.

Mr. GOLDSCHMIDT. My question was this, Mr. Anderson: Let's just get it as a matter of dates. On what date did you shut down the Jones Mills plant, or turn off the power at the Jones Mills plant?

Mr. WILSON. I would say, and I am going from memory now, that it was September 9 or 10.

Mr. GOLDSCHMIDT. It was a Friday or Saturday?

Mr. WILSON. I would have thought it was a Sunday. Sunday was the 9th, and it was within that week end. I don't want to testify that it was the 8th, 9th, or 10th, but I think it was one of those 3 days.

Mr. HICKMAN. My first conversation with Mr. Goodloe in an effort to find an amicable basis was on Thursday, September 6, and I started out by calling his attention to this expression of good will in this letter to Mr. Davis, and his desire to adjust the whole matter on an amicable basis.

I said we were in accord with that, and asked what general basis or program he had in mind. He said, "Well, unfortunately, I don't have anything in mind, because the Attorney General has told us that we cannot deal with you folks on any permanent basis, and our program has got to be to get you folks out of the plants in order to be able to sell."

Senator McCLELLAN. At that time, did he make any proposition at all about your continuing to operate these plants during the interim period?

Mr. HICKMAN. No; that matter wasn't discussed at that time.

Senator McCLELLAN. You didn't discuss it or offer to discuss it, and neither did he?

Mr. HICKMAN. I was trying to find out what possible basis of adjustment there was, and I came back with the information—which was news to us at that time—that the Attorney General had ruled in an opinion we hadn't seen then, that Alcoa was not to be considered in any disposal program, and that it was to be the policy of the Surplus Property Board to get us out of the plants.

Mr. BERGE. That is, the Attorney General's ruling was that Alcoa was not to be considered for any permanent operation?

Mr. HICKMAN. That is right, and as a result of that ruling, the Surplus Property Board was adopting the policy reflected in this notice of cancellation to get us out of the plant to put them in the position of being able to sell to other people.

Senator O'MAHONEY. Isn't it a fact that if the order of cancellation had not been sent at that time, the Government then would have been unable to protect itself during the remainder of the term of the lease?

Mr. HICKMAN. That is pure speculation on what the rate of operations would have been during the remainder of the lease. They might or might not have been able to cancel later.

Senator O'MAHONEY. So the judgment of the RFC and of the Defense Plant Corporation was that it was obligated to act, but it did want to make a temporary arrangement with Alcoa, and Alcoa was not interested in making a temporary arrangement?

Mr. HICKMAN. I will just explain the facts:

That first day I found out that there was no over-all basis on which the mater could be adjusted amicably because of this policy which was for the first time revealed to us.

I came back and reported that to our people, and we decided that under the circumstances, due to the fact we were to be kicked out bag and baggage, that there was nothing to do but acquiesce.

Senator O'MAHONEY. You are talking about the permanent policy?

Mr. HICKMAN. That is right.

Senator O'MAHONEY. I am talking about the temporary policy.

Mr. HICKMAN. There had been no discussion about the temporary policy that first day.

Mr. BERGE. You say you didn't know about the Attorney General's policy until this conversation of September 6th?

Mr. HICKMAN. I knew of no letter. I wasn't surprised at your policy. I knew your attitude for a long time.

Mr. BERGE. I am informed, but I haven't seen the testimony, that one of your representatives, I believe Mr. Hall, testified at hearings at Spokane in August, that it was your understanding that the Attorney General wouldn't permit these sales, and that was about the 21st of August.

Mr. HALL. That was hearsay.

Mr. HICKMAN. We had heard reports.

I should perhaps say that on that date, I, for the first time, got confirmation that the policy had actually been promulgated. That convinced us that there was nothing to do but acquiesce.

Senator O'MAHONEY. One fact is standing out here clear as a pipestem and that is that on the record Defense Plant and RFC were willing to make temporary contracts, interim contracts, and you were not.

Mr. HICKMAN. Let me just come to that.

Senator O'MAHONEY. Isn't that true?

Mr. HICKMAN. On the basis that they proposed, we were not. Let me tell you what happened.

Senator O'MAHONEY. They said in the letter that they were anxious to come to an amicable agreement with you.

Mr. HICKMAN. And we answered in our letter, and one is about as self-explanatory as the other. We couldn't do it on that basis.

When I took them the letter the next day, telling them we acquiesced in their cancellation, there was a discussion for the first time about whether our position would be different, if that 60-day period were negotiated to some period between 60 and 120 days, and I said, "No, that would make no difference."

Any short-time proposition like that we feared would be a losing proposition.

Mr. ANDERSON. What do you mean by a losing proposition?

Mr. HICKMAN. I am glad of a chance to explain that. Under the DPC leases, if we had lost on that interim operation, the losses would have been borne by Alcoa, if you please, out of its previous profits from the operation of that plant.

Mr. ANDERSON. What do you mean by "if you had stood a loss during that interim period"?

Mr. HICKMAN. I mean that under the terms of the leases any losses were not paid in the first instance by the Government; they were recouped by charging them against any profit that Alcoa might have earned out of its 15 percent.

As a second source of recoupment, they were to be charged against any subsequent profits that Alcoa might ever make. Only if the losses couldn't be recovered from either of those places, did the Government bear them, so that in the first instance we would have borne the loss from the operations.

Mr. ANDERSON. Why would there have been a loss in the operation?

Mr. HICKMAN. Because we couldn't schedule operations on a 60-day basis. We knew from the attitude that had been explained to us the previous day that you would throw us out at the first available opportunity.

Mr. ANDERSON. Was there any discussion with the RFC that the RFC would continue as in wartime to purchase the metals so that you couldn't have sustained a loss?

Mr. HICKMAN. No, and I would have been amazed if that had been their position, the war being over at that time.

Mr. ANDERSON. In other words, you thought you were going to have to take these products and sell them on the open market, or use them yourself?

Mr. HICKMAN. Certainly.

Mr. ANDERSON. But you didn't discuss the problem with them?

Mr. HICKMAN. No; but I would be surprised to hear you or anyone else express a contrary assumption. There was no discussion of that. We didn't think we were being invited to sell to a Government stock pile.

Mr. WILSON. Let me point out, Senator, that we had had experience in shutting down the Baton Rouge plant prior to this.

Senator MCCLELLAN. Is that a comparative plant in size?

Mr. WILSON. No; it is much smaller and was operating at a much lower rate.

After Baton Rouge was shut down it took us 6 months to remove our materials out of Baton Rouge.

Senator O'MAHONEY. It seems to me that you have there stated the only tangible reason that is involved here. RFC was trying to get a 60-day termination clause in, and you wouldn't put a 60-day clause in.

Mr. WILSON. We could not function under those circumstances.

Senator O'MAHONEY. There is the answer?

Mr. WILSON. There is the answer.

Mr. HICKMAN. That is the whole thing.

Mr. WILSON. At Hurricane Creek you will be interested to know that there are 28,500,000 gallons of what is known as "liquor." It is not drinking liquor, according to Arkansas, but it is in the system, in this alumina system, and has to be evaporated down and shipped out, and you have got to find some place to put it.

Senator MCCLELLAN. Can you do that in 60 days?

Mr. WILSON. No, sir; not close to it.

Senator MCCLELLAN. How long would it take?

Mr. WILSON. We figured 235 days to move that material out.

Senator MCCLELLAN. You were going to get out of the plant in 60 days? What was going to become of that operation? Who is going to do that? You folks?

Mr. WILSON. They took that over as part of our baggage.

Senator MCCLELLAN. In other words, you are not leaving the plant in a stand-by condition?

Mr. WILSON. We are leaving it in an operating condition.

Senator MCCLELLAN. And this further service to the plant will have to be done, taking up where you leave off immediately if they are left in a preserved condition?

Mr. WILSON. If it is not operated; that is correct.

Senator MCCLELLAN. If the operation doesn't begin immediately, these pipes will have to be cleaned of that solution?

Mr. WILSON. No; they will stand.

Senator MCCLELLAN. For how long a time? I have heard a lot of discussion about that.

Mr. WILSON. I don't feel I can say competently, but I would say a year or so.

It would be all right.

Senator MCCLELLAN. In other words, no harm would result?

Mr. WILSON. It is not a corrosive liquor that would destroy the piping and tanks at all.

Senator O'MAHONEY. May I ask you this question: Are you at this moment willing or unwilling to enter into negotiations with RFC in an effort to reach an amicable interim understanding before the 1st of November, the effective date of the cancellation?

Mr. WILSON. We are always willing to sit down with any Government agency in an attempt to work things out.

Senator O'MAHONEY. You are willing to do that?

Mr. WILSON. Of course we are.

Senator O'MAHONEY. I offer that to Senator McClellan.

Senator MCCLELLAN. I don't know how much authority this committee has, or anyone else, to direct them to do it. I urge that it be done immediately to get those plants back into operation.

Senator O'MAHONEY. I will ask the counsel of the committee to telephone Mr. Husbands immediately as to the statement that has just been made by Mr. Wilson, and in the meantime, Mr. Berge, do you care to make any comment about the testimony on the Attorney General's report?

MR. BERGE REGISTERS OBJECTION TO MR. WILSON'S STATEMENT THAT ATTORNEY GENERAL'S REPORT WAS AN APPEAL TO CONGRESS TO BREAK UP ALCOA

Mr. BERGE. The hour is late and there was material in Mr. Wilson's closing remarks for a great deal of discussion. I think, however, it would be better to resist the temptation to go into all of it, and merely make one or two general observations, and let it rest at that.

In the first place, I think it is not correct to say, as he did, that our report was an appeal to Congress to break up Alcoa. We did emphasize the inescapable situation that unless there is worked out of this Surplus Disposal an effective competitive situation, dissolution is inevitable, not by action of Congress, but pursuant to the court's decree. I am sure I made it clear in my own testimony yesterday that we would like to see as much done in the immediate weeks and months ahead through the surplus disposal to independent groups, as possible, in mitigation of the necessity of a drastic dissolution.

I guess I also expressed yesterday some skepticism, and our report does, that real competition can be permanently established in this industry without some regrouping of Alcoa's present facilities.

Mr. Wilson spoke of it—and I guess the language was paraphrased from the Attorney General's report—as small clusters of competitive units.

As I understood his argument, it was that to do so would increase the cost.

Accepting arguendo the inference that that statement carries, it seems to me that it argues against the possibility of getting effective competition just by encouraging people to come in and compete, because if it be true that Alcoa has a low-cost advantage now that no other competitors can meet, and that, as he says—and I don't accept it except for the sake of argument—if Alcoa is dissolved, and small competing units are set up, it will increase costs—if all that be true, it argues against the possibility of getting effective competition now.

The only solution or suggestion that I get out of Mr. Wilson's testimony is that anyone can do this; anyone who has the brains, initiative, capital, and the get-up-and-go can go into this business.

They did it, why can't others? That is always the argument that is made by interests having a monopolistic position in favor of competition.

The plain hard facts are that no one is willing to undertake that risk against a group that is as firmly entrenched in the economy as, under the court decree—I would think I am warranted in saying—the Alcoa interests are.

In other words, this low cost about which you speak that may give Alcoa a competitive advantage is in itself a result of integration. If it be true that integration necessarily produces lower costs and therefore is better for the economy, that is an argument that is often made in behalf of an integrated operation with monopolistic advantage.

I make two replies to that:

In the first place, whatever is accomplished by way of lower costs just isn't passed on to consumers unless there is real competition, and it is the policy of the Sherman Act to create real competition.

I also think that, as a general proposition, the fears that clusters of competitive groups will necessarily increase costs do not hold true and are not borne out.

If it is true, and if the premise on which I understood Mr. Wilson's final remarks to be made is true, they are to be taken as an appeal for preserving a single company, monopoly operation, and that presents a policy question in which the Department of Justice has no function, because under the law which we enforce we can't accept that situation; and the court's decree doesn't accept it.

Senator O'MAHONEY. May I interrupt long enough to say that Mr. Husbands says he will be glad to see you, Mr. Wilson, at his office at 9 o'clock in the morning.

Mr. WILSON. I will see him at 9 o'clock.

Mr. BERGE. Let me make this further remark, Mr. Chairman, and I will stop:

I don't doubt that Mr. Wilson will disavow the implication of what I just said, that he was arguing for a monopolistic situation, and I am willing that he should.

I come around finally, then, to the position that we have got to have some more constructive and concrete plans for reestablishing competition in the industry than just suggestions that anyone can do it through the exercise of initiative and natural talents, that this is a free country.

I am sure we would welcome, all the agencies of the Government, further technical advice on how that can be done.

If it cannot be done through the disposal program, it will be done this other way unless Congress intervenes.

I think I will let it stand on that and not try to answer it specifically.

Senator O'MAHONEY. I have observed, in the sport section of the papers the other day, that the well-known Mr. Mike Jacobs had obtained the signature of Joe Louis to a contract to fight some unknown opponent on June 30 next, and the theory that has been presented here this afternoon by Mr. Wilson is notice to all men weighing over 200 pounds that all they have got to do is enter that contest with Joe Louis.

The committee will stand adjourned until 10 o'clock tomorrow morning.

(Whereupon, at 5:30 p. m., the committee recessed until 10 a. m. Thursday, October 18, 1945.)

(The following letter, referring to loyal position of RFC in connection with the Reynolds' lease proposal, is inserted at this place by direction of the chairman:)

DEPARTMENT OF JUSTICE,
Washington, November 5, 1945.

HON. JOSEPH C. O'MAHONEY,
Chairman, Subcommittee on Surplus Property Disposal,
Committee on Military Affairs,
United States Senate, Washington, D. C.

MY DEAR SENATOR O'MAHONEY: Pursuant to your suggestion at the close of the hearings on October 17, 1945, I am supplementing my testimony, particularly with reference to Alcoa's comments on the Attorney General's report. The hearings on aluminum-plant disposal which you have been conducting have already proved their worth by making the problem much clearer and the objectives of the Government's program more specific. There is general agreement among all interested parties and observers that competitive conditions, once established, will be most beneficial to the Nation and to the industry itself. All the Government agencies concerned with the aluminum problem are striving to develop a program which best achieves this objective. Alcoa's spokesman, I. W. Wilson, has told your committee that his company welcomes competition. With all this unanimity, it should be possible to develop a plan of action which is acceptable to both business and Government.

This basic agreement should not be blurred by superficial differences and minor controversies. For that reason I would like to correct some of the erroneous impressions created by Alcoa's comments on the Attorney General's report. Despite the tenor and emphasis of Alcoa's statement, it reveals much more agreement than disagreement with the Attorney General's report. Alcoa seems to agree that truly competitive conditions would expand greatly the markets for aluminum. It also confirms the conclusion reached in the report that Alcoa's private plants, as now constituted, are in a much stronger competitive position than the Government or independent plants. The only real difference is over the method of attaining the desired state of competition.

Quite naturally, Alcoa rejects the suggestion that a reorganization of that company is necessary if competition is to be established. But it had only one suggestion to make for achieving the same end: Find "someone who is willing to do what Alcoa has done, namely, to invest money, time, enterprise, and imagination in the creation of an organization." Unfortunately, that would not be a satisfactory way out. No matter how resourceful and financially powerful a newcomer might be, it could not achieve the position Alcoa now has with respect to domestic bauxite. The ore simply is not available on comparable terms. As to water power, neither the Department of Justice nor the Federal Power Commission would permit any company to use the methods employed by Alcoa in getting prior and exclusive rights to some of the choice power resources of the country. Until Alcoa or someone else can suggest a more effective way of establishing competition, the reorganization of Alcoa is still the best solution of the problem.

Unfortunately, however, Alcoa did not stop there. Most of its statement is devoted to a rather inaccurate characterization of the Attorney General's report and the circuit court decision. I shall point out only the most serious errors. Alcoa repeatedly purports to quote the report as recommending that the company be broken up into "clusters of small enterprises." Such is not the case at all. That phrase was not used in connection with any discussion of Alcoa's reorganization. It appears in a section of the report devoted to "The obstacles faced by independent business," wherein it is pointed out that if such areas as Arkansas, the Northwest, and Los Angeles become centers of balanced groups of producing and basic fabricating plants, "clusters of small enterprises making finished aluminum products would soon grow" up around them (p. 36 of printed and p. 66 of mimeographed report). That is the only place in the report where the phrase is used and it has not the remotest connection with proposed reorganization of Alcoa. Further, up to that point in the report there is no reference at all to the reorganization of Alcoa.

The Attorney General's report leaves no room for ambiguity as to the purpose and nature of the proposed reorganization of Alcoa. The first reference to such a solution of the monopoly problem in the aluminum industry is to be found at the conclusion of a discussion of the various subsidies which would be necessary to attract independent operators as long as Alcoa remains as dominant as it is today. In that connection, the Attorney General declared that "competition will never become healthy enough to stand on its own legs if it is dependent on so much nursing and propping by Government. The best answer to the problem is the elimination of the tremendous advantage to Alcoa, the fruits of its half a century of monopoly, by subdividing the company into efficient but competing units" (p. 40 of printed report).

This emphasis on efficiency is to be found wherever Alcoa's reorganization is mentioned in the report. It is specifically stated that those facilities which are already physically integrated would not be separated from one another and that the whole reorganization would be carried out "so that the finally assembled groups will represent a balanced and efficient subdivision of Alcoa's present properties" (p. 41 of printed report). Finally, the report states that the companies resulting from the reorganization of Alcoa "would have the benefits of operational integration and would be rather substantial in size." In view of these clear-cut statements, it is difficult to see how Alcoa could have come to the conclusion that the Attorney General was advocating the breaking up of Alcoa into "clusters of small enterprises."

Another unfair assertion is Alcoa's charge that "The Attorney General is recommending the dissolution of Alcoa because it is the lowest cost producer in the industry." The portions of the report previously cited indicate that the Attorney General's objective is not to destroy a low-cost producer but to establish competition. Furthermore, that the reorganization is to be carried out in such a way as to retain the efficiencies of production and manufacture. Alcoa takes the position that any reorganization, no matter what form it takes, would destroy "its fully integrated position" and therefore increase costs. Alcoa is actually claiming that not a single plant, not a dollar of its present investment, can be separated from the present management without upsetting the whole cost structure of all its plants.

Essentially Alcoa is arguing that all it happens to own at any given time is the irreducible minimum for efficient operation. In 1940 it was against any reorganization on the grounds that its 327,000,000-pound system (the then capacity of Alcoa) must be kept intact to achieve all benefits of integration. Today it is equally insistent that nothing be touched although its system is more than twice as large as it was in 1939. Such a position is merely an argument for status quo.

Alcoa's statement concerning the circuit-court decision also requires modification if it is to be accurate. The circuit court, according to Alcoa's interpretation of its decision, considered each branch of the ndustry independently but found a monopoly in ingot alone. That was not what the court did at all. As explained early in the decision the court dealt with the issue of a monopoly within the United States under these two headings: "(1) whether Alcoa monopolized the market in virgin aluminum ingot;" and "(2) whether alcoa was guilty of various unlawful practices ancillary to the establishment of its monopoly."

The court unquestionably viewed ingot as the heart of the industry and all other branches of the industry as subordinate thereto. It is therefore misleading to imply that the court consdered all branches of the industry on a coordinate basis and that it found Alcoa guilty as a monopoly of only one of its subdivisions. What actually happened was that the court found Alcoa guilty of monopoly in the industry's most important branch, ingot.

In closing I want to again stress that the only unsettled question is how can we establish competition in this industry most rapidly and with the least intervention by Government. If all of us concerned with the problem, both in Government and in industry, work together, the answer can be found quickly.

Sincerely yours,

WENDELL BERGE,
Assistant Attorney General.

ALUMINUM PLANT DISPOSAL

THURSDAY, OCTOBER 18, 1945

JOINT HEARING OF THE SUBCOMMITTEE ON SURPLUS PROPERTY OF THE COMMITTEE ON MILITARY AFFAIRS, THE SPECIAL COMMITTEE TO STUDY AND SURVEY PROBLEMS OF SMALL BUSINESS ENTERPRISES, AND THE INDUSTRIAL REORGANIZATION SUBCOMMITTEE OF THE SPECIAL COMMITTEE ON POSTWAR ECONOMIC POLICY AND PLANNING

UNITED STATES SENATE,
Washington, D. C.

The committees met, pursuant to recess, at 10 a. m., in room 224, Senate Office Building, Senator Joseph C. O'Mahoney (chairman, Subcommittee on Surplus Property, Military Affairs Committee) presiding.

Present: Senators O'Mahoney, Murray, Wherry, and Revercomb.

Also present: Senators McClellan, Mitchell, McFarland, and Robertson.

Kurt Borchardt, counsel, Subcommittee on Surplus Property, Military Affairs Committee; Dewey Anderson, executive secretary, and C. E. Childe, consultant, Senate Small Business Committee.

Appearances: Same as heretofore noted with the following additional appearances:

E. F. Scattergood, advisory engineer; and Northcutt Ely, special counsel, bureau of power and light, department of water and power, city of Los Angeles, Calif.

Senator O'MAHONEY. The committee is now in session.

Mr. Caskie, we will be very glad to hear from you, representing the Reynolds Metals Co.

Senator MCCLLLAN. Mr. Chairman.

Senator O'MAHONEY. Senator McClellan.

Senator MCCLELLAN. In order to conserve time and also the record, while I do not want to insert all of this considerable number of telegrams that I have received regarding this subject, I would like to read one or two of them into the record at some convenient time, and also file a list showing the origin of all of them.

Senator O'MAHONEY. That will be quite agreeable.

Senator MCCLELLAN. At sometime before the record is closed I would like to do that.

Senator O'MAHONEY. They will go in the record following the presentation by Reynolds.

Senator MCCLELLAN. At any appropriate place.

Mr. CASKIE. May I proceed?

Senator O'MAHONEY. Please.

STATEMENT OF M. M. CASKIE, VICE PRESIDENT, REYNOLDS METALS CO.

Mr. CASKIE. Mr. Chairman and gentlemen of the committee, my name is M. M. Caskie, and I am vice president of the Reynolds Metals Co.

I believe that the investigations which the various Senate committees have made into the aluminum situation have been most helpful, and I am confident when you finish your deliberations you will be enabled to reach conclusions that will be in the best interests of our country.

At the outset, we wish to express our appreciation for the finding by the Senate Small Business Committee that—

> Government loans made to Reynolds on terms less favorable than loans made to the Canadian company should be renegotiated. It would seem to be indefensible for the Government to exact harsher terms from the United States operators than those given to the newly created giant competitor across the border.

Senator WHERRY. Do we have a contract with the Canadian company now?

Mr. CASKIE. Well, what I quoted was a finding of your committee.

Senator WHERRY. That is right.

Mr. CASKIE. Reynolds does not desire, nor would it accept, treatment as liberal as that accorded to the Aluminum Co. of Canada. To equalize our respective situations would require making available to Reynolds the largest aluminum plant in the world, and presenting to us a gigantic power plant such as described in the reports of the Attorney General, the Senate Small Business Committee, and Mr. Symington. On the contrary, Reynolds will only request that the interest which it paid during the war period at the rate of 4 percent on its fully secured mortgage loan be reduced for that period to the 3-percent interest which the Canadian company paid on its unsecured loan during the same period, and that Reynolds obtain a credit for the aluminum produced by it for war purposes in the amount of the escalator payments per pound of aluminum our Government allowed to the Canadian company on a very much larger amount of aluminum. Reynolds does not even ask for the return of these moneys, but only that they be credited on its indebtedness to the RFC.

I have read the reports of Mr. Symington, Surplus Property Administrator, and of the Attorney General, and I believe that both of those reports are excellent and will aid in clarifying the aluminum situation.

GOVERNMENT SHOULD TURN ITS BAUXITE AND WASTE POWER INTO ALUMINUM INGOT

To be brief, the United States already owns approximately 3,000,000 tons of bauxite in Arkansas. It owns alumina and aluminum reduction plants, and it owns power facilities capable of producing more power than can be presently used unless it is used to make aluminum. Consequently, the primary cost which the Government would incur by processing the bauxite which it owns in its plants and with its own power that would otherwise be wasted, would be only the labor and management expenses. I estimate these not to exceed 6 cents per pound, the current price of good scrap. As a matter of fact, part of this cost for labor may be expended by the Government in the form of unemployment compensation in the event these plants are not operated. The worst that could possibly happen to the Government would be that labor would be employed, waste power utilized, and a Government-owned bauxite stock pile turned into an aluminum ingot stock pile which would be exceedingly valuable for national defense and useful to our civilian economy.

The benefit that eventually will obtain will be the creation of a great new competing aluminum industry, which will provide permanent employment for thousands of workmen and enable the Government ultimately to salvage most of the moneys which have already been expended in the construction of aluminum plants. I will not repeat at length what has already been said by many witnesses before the various Senate committees, which have held hearings, or what is contained in the reports previously referred to. But briefly, there is general agreement that aluminum has a very great future, that the transportation industries, particularly the railroad and automobile industries, can use quantities of aluminum exceeding our present capacity, but that cannot be done immediately. They will not embark upon the expensive and arduous task of substituting aluminum for other materials unless they are certain that aluminum will not be monopolized and unless they are certain that there will be a large supply at fair prices.

Through the operation of the Government plants for an interim period of several years, the Government not only would turn its bauxite and waste power into aluminum ingot in plants that would otherwise be idle, and give employment to men who may be idle, but it will assure prospective users that there will be a plentiful supply of aluminum ingot free from monopoly control, and thereby end the fears that now retard the shift from other materials to aluminum.

Therefore, we are in full accord with the positions we understand have been taken by Mr. Husbands on behalf of the RFC and approved by Mr. Symington, that the Government should make contracts for the operation of a number of these aluminum plants by private companies. As soon as we learned of Mr. Husbands' conclusions, we entered into negotiations with Mr. Symington and Mr. Husbands and submitted an offer in accordance with what we understood to be their combined viewpoint.

Until we heard Mr. Husbands' statements here, we were under the impression that both he and Mr. Symington were considering the proposal made by Reynolds, which was submitted to them in an effort to meet what we understood to be their combined viewpoints. We did not know until Mr. Husbands so stated before you, that he had arrived at the conclusion that he could not recommend to Congress the acceptance of our proposal. Indeed, we were conferring with him right up to the time you started the present hearings last Monday morning. It is true that he asked us if we could make some modifications of our proposal that would be more favorable to the Government, and we stated that we had no changes in our proposal to suggest at the time, but that we would discuss details with him further. We were told by these gentlemen that ours was the only specific proposal they had received up to that time from interests who were qualified to operate these plants, so it came as something of a shock to us to hear Mr. Husbands' short criticism of our proposal. What Mr. Symington's attitude now is, of course we do not know.

RFC HAS CANCELED ITS POWER CONTRACTS

It is important for the committee to know that since we made our proposal, the RFC has canceled its power contracts for the operation of the plants, paying a penalty of some four or five million dollars in the aggregate to accomplish that purpose. This makes it impossible for Reynolds Metals Co. or any other company to negotiate new leases on a short-term basis for the power requirements of these plants at anything like a power cost or rate comparable with that enjoyed by the Aluminum Co. of Canada and the Aluminum Co. of America, unless there is some congressional action directing the Government power agencies to enter into contracts with the operators of these Government plants at a competitive power rate.

Senator McCLELLAN. Who did you say canceled those contracts, causing that loss?

Mr. CASKIE. The RFC. I have only Mr. Husbands' statement as to that.

Senator McCLELLAN. I wanted to find out where you placed the responsibility.

Mr. CASKIE. I understand that he used funds of the RFC to settle those contracts. They were rather long-term contracts and the plants being down, he didn't feel, so I understand, that he should continue to pay high rates for power that was not being used.

Mr. BORCHARDT. Were those contracts with Government power agencies?

Mr. CASKIE. They were.

Senator REVERCOMB. So the loss is from one Government agency to another?

Mr. CASKIE. Absolutely, Senator.

We have never been able to negotiate short-term power contracts with either the TVA or Bonneville on a basis comparable to the power costs enjoyed by our competitors. Our proposal to Messrs. Husbands and Symington required that the RFC arrange for the power, but, as I have said, since our proposal was submitted, RFC canceled all power contracts it had for the operation of these plants, and having paid a penalty to obtain release from the existing power contracts, it is not prepared to enter into another one so quickly.

I do want to stress to you gentlemen the very great importance of making proper provision for the use of excess Government power in the manufacture of aluminum at rates comparable to the low power cost now enjoyed by Alcoa and by the Aluminum Co. of Canada. I cite in this connection an excerpt from the interim report of the Senate Small Business Committee:

> Next to the adequate and economical raw materials, the greatest necessity of light-metals production is an enormous supply of cheap electric power. * * * A difference of 1 mill per kilowatt-hour makes a difference of 1 cent per pound in the cost of producing aluminum ingot. * * * Alcoa owns some of the cheapest hydroelectric power in the United States, serving its plants in Tennessee and North Carolina, and owns or has under contract low-cost electricity for its New York plants. * * * It is difficult to see how new operators, including **Reynolds, will be able to compete successfully in the future against Alcoa and Aluminum Co. of Canada, which have their own low-cost power plants, unless they** get their electric power at rates competitive with Alcoa's power costs. * * * It should be the established policy of our Federal power agencies, which have **supplied the major part of the power for aluminum production in the war effort,** to establish lowest possible rates for such secondary power for light-metals production. A rate in the Pacific Northwest, Tennessee Valley, and other areas of low-cost public power production, lower than 1 mill per killowatt-hour, would be desirable, and would seem to be feasible.

The Attorney General's report dwelt at considerable length on the subject of power in connection with the obstacles faced by independent producers, but it is sufficient to quote only the following statement made therein:

> With power the second most important item of cost, this marked advantage enjoyed by Alcoa is another barrier to the development of competition.

Similar comment is contained in Mr. Symington's report to the Congress wherein on page 16 he states as follows:

> Inflexible contracts for the sale of Federal power in the Tennessee Valley and Pacific Northwest result at times in high costs of power for aluminum production. This makes more difficult the disposal of Government plants, puts Reynolds at a disadvantage compared with Alcoa, and places all American producers at a disadvantage in competing with Canadian aluminum which is produced at subsidized power costs. It is, therefore, desirable that those who take over Government plants be in a position to negotiate more flexible power contracts.
>
> If the existing law governing the rates on Federal power prevent the negotiation of power contracts of this kind, it is suggested that Congress may wish to consider, in the interest of national security, a modification of those laws so far as they relate to the use of power for the production of strategic and critical products essential to the national defense.

Senator WHERRY. Mr. Caskie, what plants are you interested in wherein the power rate is involved? I am not talking about the ones you have now, but the plants in which you might be interested.

Mr. CASKIE. You mean reduction plants, Senator?

Senator WHERRY. Yes.

Mr. CASKIE. The one at Troutdale, Oreg., and the one at Spokane, Wash.

Senator WHERRY. If you took those over under lease would the power rates there be satisfactory?

Mr. CASKIE. They are the lowest power rates, Senator, that we have been able to obtain, but they are a cent and a half per pound higher than the Canadian power cost, as estimated by Mr. Symington; and they exceed, I think, the average cost that Alcoa incurs in the production of aluminum in this country.

"POWER IS CONTROLLING CONSIDERATION IN THIS WHOLE PROGRAM"

Senator REVERCOMB. Mr. Caskie, at this point, is it your view that Reynolds must have power of equal cost or cheapness with Alcoa in order to operate? Is that the point you make?

Mr. CASKIE. Senator, I might say that we are going to continue to operate.

Senator REVERCOMB. But you say that, in order to be in a position so that you may properly operate, you must have power as cheap as that which Alcoa produces for itself.

Mr. CASKIE. If we are to have an equal opportunity.

Senator REVERCOMB. Yes. Let me put this question: If the Government can see to it that you get power as cheaply as Alcoa gets it, will you operate these plants that are presently Government-owned without asking anything else from the Government? In other words, suppose they help you out on the power proposition, then what?

Mr. CASKIE. I am inclined to think, Senator—and I am speaking now personally, as I haven't had an opportunity to put that question to my colleagues—but I believe we could present a proposition to the Government that would be a practical proposition along that line,

because I think power is a controlling consideration in this whole program. Therefore, I believe if we could be assured of power costs no greater than Alcoa's—we would still, of course, be handicapped in competing with the Canadian Co., and we would have to give that matter very serious consideration—but I will tell you this, that we would be glad to consider that.

Senator WHERRY. Mr. Caskie, would you extend that to an expansion program? Say that you could get this plant up at Troutdale and get the same power rate that Alcoa might have, would you be interested in that plant on the same basis?

Mr. CASKIE. Yes. I thought the Senator's previous question covered all these plants in which we have expressed an interest.

Senator WHERRY. I understood you to say that you would continue to operate what you had. But what I am interested in is this: If you got the same rates as Alcoa, would you be interested in the Troutdale plant on the same basis—that is, without Government aid?

Mr. CASKIE. If you will put it this way—not the same rate that Alcoa gets, because I imagine Alcoa gets the same rate in that neighborhood that we get. We have to consider their over-all picture, Senator. We have to take into account not their power rate at one place, but their average power cost.

Senator WHERRY. I am sorry, but I didn't quite hear your answer. What I would like to know is this: Do you want a rate comparable with that of the Canadian Co. before you would enter into a lease for Troutdale, or would you be willing to take Troutdale on a lease basis without any guarantee from the Government, on the same rate that Alcoa would take it? That is what I would like to know.

Mr. CASKIE. I don't know on what basis Alcoa would take it. I don't understand that Alcoa has made any proposition to operate that plant.

Senator WHERRY. If Alcoa were to make an offer to purchase or lease Troutdale, would you take it on the same terms on which Alcoa would take it, if they should make an offer?

Mr. CASKIE. I don't know. I would have to know their proposition first, Senator.

Senator O'MAHONEY. You could hardly expect the witness to answer a question——

Senator WHERRY (interposing). What I am trying to find out is this: Do you want a rate comparable to that under which Alcoa has been operating in order to compete with them successfully?

Mr. CASKIE. Yes.

Senator WHERRY. Or do you want a rate that the Canadian Co. operates under so that you might have an expansion program up at Troutdale?

Mr. CASKIE. We would like to have a power rate, Senator, that approaches as nearly as possible the rate paid by our competitors, whether it be in Canada or in this country.

Senator WHERRY. That is what I wanted to know.

Mr. GOLDSCHMIDT. May I clarify that point, Mr. Chairman?

Senator O'MAHONEY. Certainly.

Mr. GOLDSCHMIDT. The power rate that Reynolds pays in the Northwest today, on Bonneville power, and that which Alcoa pays in its own plant, and that was paid by the Government for the facilities at Troutdale, is exactly the same rate.

Senator WHERRY. I understand that.

Mr. GOLDSCHMIDT. Those are the same rates; they are all commercial contracts made under the Bonneville rate as approved by the Federal Power Commission.

Senator WHERRY. And the second part of my question was, if that were done, would you still expect these guarantees or subsidies, or would you do it outright?

Mr. CASKIE. Senator, I don't know that we are suggesting any subsidies, and if you will bear with me for a few moments until I get to our proposition, I will appreciate it.

Senator WHERRY. All right.

Mr. CASKIE (continuing). There is no question but that there is excess power represented by water which will simply run over the dams without making any contribution to our national welfare unless it is used to make aluminum. That power is owned by the Tennessee Valley Authority and the Bonneville Power Administration, two Government agencies which must dispose of it in accordance with existing law. I am not critical of these agencies. In fact, I understand that one or both of them are anxious to have some provision made to prevent this waste of a national resource. It is important that proper legal steps be taken so that these agencies will be authorized and directed to permit the use of their excess power to create aluminum for the benefit of the United States of America. Since I understand that they have representatives here at the hearing who may testify later, I will not elaborate on that. I simply wish to emphasize the importance of making proper provision for the use of this power at low rates, as was emphasized by the Senate Small Business Committee and by both Mr. Symington and Mr. Clark in their reports.

REYNOLDS METALS CO. HAS NO OPTIONS TO ACQUIRE GOVERNMENT-DPC ALUMINA AND ALUMINUM PLANTS

Reynolds Metals Co. produced its first aluminum in its privately owned plant in Alabama, in May 1941, which happens to be the same month and the same year in which our Government entered into its first contract with the Aluminum Co. of Canada to so enormously expand that company's production in that country. Thereafter, the Government's expansion program that took place in this country was all granted to Alcoa under terms now condemned by Alcoa as "subsidies from the cradle to the grave." Alcoa was given all alumina and aluminum plants for operation except the small aluminum plant accorded to the Olin Corp. Thus the Reynolds Metals Co., although the first volunteer to engage in producing aluminum in competition with Alcoa and its counterpart in Canada, was never permitted to build or operate any of the Government-DPC alumina and aluminum plants. So we have no options to acquire any such plants.

Senator WHERRY. But you have a chance to lease them before Alcoa does?

Mr. CASKIE. Apparently so, on account of the court's opinion. [Continuing:]

As we did in the war effort, we now offer in the reconversion effort the best proposition we are in a position to make, namely, that set out in our president's letter to Messrs. Symington and Husbands under date of September 25, a copy of which, with your permission, I will read.

Before doing so, however, perhaps I should read what Mr. Husbands had to say about this before we submitted our proposition. At the hearing before the Special Senate Committee Investigating the National Defense Program, at Spokane, Wash., on August 21, 1945, Senator Mitchell inserted in the record a letter from Mr. Husbands to Mr. Symington, dated August 2, 1945, reading as follows:

I am enclosing a memorandum for your personal information.

To embark on this program would be quite a departure for peacetime operations, and there might be a howl that the Government's guaranteeing an operator against loss would be construed as a subsidy.

However, the plan, under the circumstances, is common sense, if we can secure efficient and sensible operators with some background experience in metallurgy.

The facts are the Government has the plants; knowledge of operation is restricted to Alcoa and Reynolds; the Government wants to realize on these plants; therefore, the Government will have to take the risk incident to the education of new operators.

Would like to talk with you some time about this.

Now let me read you the memorandum which was enclosed in that letter.

AUGUST 2, 1945.

Memorandum re leasing of aluminum metal plants.

1. Alcoa has definitely stated that they will not impart their know-how to any other lessees or purchasers of Government-owned plants. Thus, any such lessee will have to acquire the know-how from experience and it will probably be costly.

2. Under the circumstances, I am doubtful that we will be able to get any responsible concern to undertake the operation of aluminum plants on a straight lease basis and lay ourselves (I think he meant "themselves") liable to losses of operating capital.

3. Assuming it is in the public interest to create new factors in the aluminum metal manufacturing field, the lease plan now in effect with Alcoa might solve the problem. That plan would be as follows:

(a) Lease only those plants which give promise of being economically sound, namely, Troutdale, Oreg.; Spokane, Wash.; Jones Mills, Ark.; and possibly Los Angeles, Calif. (if in the latter location a favorable power rate can be obtained).

(b) The lease to run for 3, 4, or 5 years (length of time to be determined).

(c) Lease to provide that lessee operate the plants with its own operating capital.

(d) Out of operating profits, lessee to pay taxes, insurance, etc., on the plant. Next, the Government to be paid cash representing normal depreciation on the plant, the remainder of the profits (before income taxes) to be split, 85 percent to the Government and 15 percent to the lessee. The Government to stand all losses from operation (thus the Government would take the lion's share of the earnings, if any, against its guarantee to lessee that there will be no loss).

4. It would be necessary that the Government exercise control over the amount of money paid to top-flight management, fees, commissions, and other extraordinary expenses, to prevent exploitation of such a contract as mentioned above.

In that connection I might say that the RFC now has absolute control over the salaries paid to the officers of Reynolds Metals Co. That is part of the contract with the RFC under our mortgage loan, that we cannot employ anyone to whom we pay more than $6,000 a year salary, nor can we increase any officer's salary, without getting approval from the RFC.

Senator REVERCOMB. Isn't that a usual provision in large loans by the RFC?

Mr. CASKIE. I couldn't tell you; I know it applies to us and we have no objection to it.

Senator O'MAHONEY. It is worthy of note in that connection that yesterday afternoon when Mr. Wilson read into the record another

offer to the Government for one of these plants, it was specifically set forth in that offer that the Government, probably the RFC, should have the power to regulate the distribution of the product. I say it is notable because it comes from Alcoa, and it is an invitation from Alcoa for a degree of Government regimentation which has never before been exercised except during time of war.

Mr. CASKIE. Yes; that is correct, Senator. [Continuing:]

5. Under such an arrangement, it would be necessary that the cooperation of power companies be obtained in securing a power contract at reasonable rates without demand charges. Otherwise, should the experiment fail after a year or two, the Government would be saddled with a heavy cancellation charge that would run into millions of dollars.

Now, that is the proposition from Mr. Husbands that we had when we offered to him our proposition.

Senator REVERCOMB. The date of that letter, please?

Mr. CASKIE. August 2, 1945.

Senator REVERCOMB. August 2, I might point out, was prior to the fall of Japan.

Mr. CASKIE. Yes.

Senator REVERCOMB. The war was still on.

Mr. CASKIE. Yes.

Senator REVERCOMB. And the terms suggested in the memorandum of Mr. Husbands are very much in keeping with the terms of other contracts on aluminum made during the war, are they not?

Mr. CASKIE. But this was entirely as to new people coming in and operating the Government plants, Senator.

Senator WHERRY. Does the offer you made include anything about the know-how? If it does I will reserve my questions along that line.

Mr. CASKIE. Senator, we think we have the know-how.

Senator WHERRY. That is what I was going to ask you. Do you have the know-how to operate, for example, the Hurricane Creek or Jones Mills plants profitably?

Mr. CASKIE. You mean to get it fresh now?

Senator WHERRY. Yes.

Mr. CASKIE. Yes.

Senator WHERRY. You can do it without that?

Mr. CASKIE. Yes; otherwise we wouldn't be in business at all.

Senator O'MAHONEY. It ought to be made clear at this point that Mr. Husbands, in writing that letter, was not making any binding commitment, nor was he expressing the belief that any Government agency had the authority to make such a contract.

Mr. CASKIE. Exactly so, Senator; but it was the only definite expression that we could get as to the conditions and terms under which the Government might lease these plants.

Senator O'MAHONEY. It was an effort to define the basis of consideration.

Senator WHERRY. It was the beginning of a horse trade.

Mr. CASKIE (continuing):

Based upon this proposal, or suggestion of Mr. Husbands, we submitted our proposal. To meet Mr. Symington's views, we agreed to make our proposal more favorable to the Government than Mr. Husbands' by assuming 15 percent of any losses that might occur during any year following the first year's operations.

It was in that atmosphere that we submitted our proposal, expecting that it would receive the approval of all agencies and believing that it was a better proposal than could be obtained from any other source.

PROPOSAL MADE BY REYNOLDS TO RFC

Now, this proposal, gentlemen, is addressed to Mr. Symington and Mr. Husbands, under date of September 25, 1945:

Recognizing the Government's announced policy of disposing of its aluminum plants in such a way as to establish effective competition, we are willing to undertake immediate operation of the Hurricane Creek alumina plant and the Jones Mills, Spokane, and Troutdale reduction plants on the following basis:

1. Term.—Five-year lease.

2. Sales and stock piling.—Reynolds shall endeavor to sell the output of the reduction plants at a base price not to exceed 14 cents for virgin pig and 15 cents for virgin ingot. The Government shall purchase any surplus at 14 cents for pig and 15 cents for ingot, and shall hold such aluminum as a stock pile for national defense or for sale at current prices to commercial users whenever private production cannot supply the demand at current prices. The Government need not purchase more than 85 percent of the capacity of the plants, nor more than 500,000,000 pounds a year, nor for longer than 3 years.

Now, that 500,000,000-pound figure is wrong. Eighty-five percent of the maximum capacity of those plants would represent only a little over 400,000,000 pounds. There was an error in calculation there.

Mr. BORCHARDT. May I interrupt to ask you if this feature of the purchase of the ingot appeared in Mr. Husbands' memorandum?

Mr. CASKIE. It did not. [Continuing:]

Since the Government owns the plants, the major power facilities, and a 3,000,000-ton bauxite stock pile, its additional out-of-pocket expenditure to convert the bauxite into virgin aluminum will not exceed 6 cents per pound. By resuming operation of these plants and purchasing the surplus for stock pile, the Government will convince large users that there will always be an ample supply of aluminum at fair prices, and will stimulate employment in the fabrication of aluminum products.

3. Profit-sharing basis.—RFC will receive 85 percent of the profits plus all actual depreciation and will pay all expenses including direct overhead chargeable to the plants and allowances for indirect overhead similar to those in the Alcoa-DPC lease; i. e., 4 percent of the sales value of the aluminum produced up to 512,000,000 pounds per annum and 2 percent thereafter, and 4 percent on the alumina production not to exceed $400,000 per annum. Reynolds will absorb 15 percent of any over-all losses after the first year.

4. Working capital.—RFC shall supply 85 percent of the working capital at 3 percent interest.

5. Rental basis.—At any time after 1 year, Reynolds may elect to pay rental for the remainder of the lease in lieu of the arrangement under which RFC pays the expenses and receives 85 percent of the profit. Rental shall be negotiated on the basis of a reasonable percentage of sales based on the DPC formula whereby the equipment would be amortized at the rate of 12 percent per annum, the buildings at 5 percent, etc., when the plant is operating at capacity. For example, if the reproduction value of the useful facilities, after deducting depreciation, is $60,000,000, and the average depreciation rate is 8 percent, RFC would expect a maximum rental of $4,800,000 per annum. Assuming total annual sales at capacity to be $96,000,000, a rental based on 5 percent of the sales would yield $4,800,000 (5 percent × $96,000,000=$4,800,000).

6. Alumina.—During the term of the lease, alumina shall be sold to other plants and outsiders at cost plus 6 percent.

7. Bauxite.—Reynolds may supply bauxite at market prices or may purchase bauxite from the Government's stock pile at the same prices paid by Metals Reserve.

8. Power.—Power shall be provided under contract between RFC and the power supplier, and the cost thereof shall be charged as a cost of operation in the same manner as in the Alcoa-DPC agreement.

9. Insurance and taxes.—Reynolds will procure proper insurance and pay all taxes, which shall be expenses of operation.

Senator WHERRY. Could you say what the power cost was in that DPC agreement that Alcoa had?

Mr. CASKIE. In the DPC agreement with Alcoa, the RFC agreed to furnish all the power.

Senator WHERRY. I see.

Mr. CASKIE (continuing):

PATENTS

10. Patents.—RFC will obtain licenses under any patents necessary to operate the plants.

Senator MCCLELLAN. In that connection is it necessary to obtain any patents?

Mr. CASKIE. If that is not necessary, that is no problem. If there are any patents we certainly don't want to assume that because it might be ruinous.

Senator MCCLELLAN. I wasn't questioning your proposal, but I didn't understand that there were any patents.

Mr. CASKIE. In making a proposition, Senator, you have to be sure that you cover everything.

Senator MCCLELLAN. I am not questioning that but I want to know if there are any at the present time?

Mr. CASKIE. I don't know, but I assume that there are.

Senator O'MAHONEY. The testimony yesterday was that the Aluminum Co. had a patented process at Hurricane Creek.

Senator MCCLELLAN. There was something in the opinion of the Court to the effect that there had been no restrictions by way of patents subsequent to 1909.

Senator O'MAHONEY. I am referring to Mr. Wilson's testimony of yesterday. The Court's decision was based upon conditions that existed as of 1940.

Senator MCCLELLAN. And this particular process has been developed since then?

Senator O'MAHONEY. It was developed since, as I understand it, under the conditions which were brought about by the Government program of sustaining all producers of aluminum for the purposes of the war.

Senator WHERRY. The patent has been acquired since the beginning of the war, but I understood that the processes had been in vogue for nearly 20 years; that is the know-how.

Senator O'MAHONEY. I think there was a new process that was developed.

Senator WHERRY. That is why I asked Mr. Caskie, when he started out, if he could operate any of these plants without that know-how—which is those patents—or whether he would have to acquire them in order to be on the same basis with a competitor.

Mr. CASKIE. Of course, Senator, if you don't acquire the patent rights, nobody but Alcoa could operate the plant.

Senator WHERRY. Then, to be sure you can do it you have to acquire them.

Mr. CASKIE. Yes; so that is the reason we put that in our proposal.

Mr. GOLDSCHMIDT. That is that lime-soda-sinter process?

Mr. CASKIE. Yes.

Senator MCCLELLAN. That is what I was trying to bring out, whether there was any patent that had to be acquired if the competitor were actually in fact to be able to compete with Alcoa.

Mr. CASKIE. It would be a very unfortunate situation if—here we have a Government plant costing $23,500,000, a Government plant—if those patent rights are not made available then there is no one to operate that Government plant costing $23,500,000, but Alcoa.

Senator REVERCOMB. What is your idea as to how RFC would obtain them and make them available?

Mr. CASKIE. We were told by the RFC that that would be a matter which wouldn't be very troublesome—that they were assured of that by Alcoa.

Senator O'MAHONEY. This brings out into the clear the very heart of the problem. The people of the United States, by their contributions by way of taxes and by way of the purchase of bonds, have constructed these plants. Now, the question is, what are we going to do with these plants. Are we going to make them available for competitive industry, are we going to lock them up, or are we going to let them drop into the lap of the Aluminum Co. of America?

Mr. CASKIE. I am going to deal a little bit later, Senator, with the questions you ask, in their order, just as you put them.

Senator MCCLELLAN. Just one other point in that connection. There is no restriction on you now as to any process that you may have and may have developed to use in competition with Alcoa, is there?

Mr. CASKIE. No; but if this plant is so constructed that it is incapable of being operated efficiently except by the use of Alcoa's patent, and that patent cannot be made available to any prospective purchaser, or anyone who wants to lease the property, than of course there is nothing to do but let it stand idle or give it to Alcoa.

Senator MCCLELLAN. Is that a statement of fact?

Mr. CASKIE. As I see it.

Senator MCCLELLAN. That the plant has been so constructed that it can only be operated by the use of this patent?

Mr. CASKIE. That is what I understand.

Senator MCCLELLAN. Well, I just asked that for my own information.

Mr. CASKIE. I think it is part and parcel of the whole operation. I am afraid you would infringe on the patent if you attempted to operate that plant outside of the patent.

Senator MCCLELLAN. That is what I want to get clear.

Senator O'MAHONEY. Of course, it might be worthy of comment that the patent was a grant from the United States.

Mr. CASKIE. Oh, yes.

Senator O'MAHONEY. And when the Government of the United States grants a limited monopoly, as it does under the patent law, and quite properly so, to any inventor, it is granting to that inventor the protection of the United Staes against competition.

Senator WHERRY. Would this question be proper? As I understand it this patent enables the producer to take low-grade ore and compete successfully with a producer using high-grade ore?

Senator O'MAHONEY. The testimony of Mr. Wilson yesterday was that this process is capable of operating on the site where low-grade bauxite is produced, and operating successfully.

Senator WHERRY. Is there any other plant where you could accomplish the same result except Hurricane Creek? That is, is there any other plant that will do at any other location, the same thing that Hurricane Creek will do?

Mr. CASKIE. It is my opinion that at every alumina plant Alcoa owns or operates for the Government there is a Government so-called sintering plant, and I might call attention to——

Senator WHERRY (interposing). So that you would have to take care of the patent rights no matter which plant you bid on?

Mr. CASKIE. I think so. You have sintering plants at Mobile, Ala., where Alcoa has a very large aluminum plant. You have one at East St. Louis where Alcoa has a very large aluminum plant. I don't know of anyone who would be interested in those plants except Alcoa. Certainly you can't move them and you couldn't bring red mud up to those plants from any other place.

Senator MITCHELL. Are there any bauxite reserves available on which you wouldn't have to use a sintering plant?

Mr. CASKIE. Not in this country that I know of, in any substantial quantities.

Senator MITCHELL. Are there any that you might utilize by moving the Baton Rouge plant to the Pacific coast?

Mr. CASKIE. And using high-grade bauxite from the Netherlands East Indies—that is possible.

Senator MITCHELL. You wouldn't have to use the Alcoa patent, then?

Mr. CASKIE. You wouldn't have to use the Alcoa patent, unless they have some patent in connection with the Baton Rouge plant that might tie up that process too, so that nobody else could use it. I don't know.

Mr. GOLDSCHMIDT. But the Baton Rouge plant is not a sintering plant?

Mr. CASKIE. No; but I understand they have a sintering plant adjacent to it. May I now proceed?

Senator O'MAHONEY. Yes.

Mr. CASKIE (continuing):

11. *Records and inspection.*—Reynolds will keep itemized records of income and expenses necessary to determine profit or loss, and records of shipments and invoices, which shall be available to RFC for audit.

12. *Cartels.*—In order that the Government may have additional assurance that there will be effective and genuine competition in the production and sale of alumina and virgin aluminum, Reynolds agrees that it will not restrain competition in these products by entering into cartel agreements or agreements with competitors in restraint of trade.

13. *Excusable breach.*—Reynolds shall be excused for nonperformance resulting from inability to obtain materials, labor shortage, fire, explosions, etc., or causes beyond its control.

Now, the next one is important, gentlemen, because the question of subsidy and the losses that the Government may assume, and all that sort of thing, have come up repeatedly.

CANCELLATION CLAUSE

14. *Cancellation.*—RFC shall have the right to cancel on 6 months' notice whenever aggregate rental payments for two consecutive quarters are not equivalent to an annual rental of $1,000,000. It shall also have the right to cancel on default or violation of terms of the lease by Reynolds uncured for 30 days after notice. Reynolds may cancel on 6 months' notice effective after 1 year of operation.

So, under Reynolds' proposal, if after two consecutive quarters the rent that Reynolds pays to the Government is not equivalent to $1,000,000 a year, they have the right to cancel the agreement. Now,

keep in mind that they are losing money today; these plants are lying idle. The Government's power is going to waste.

Senator McCLELLAN. In that connection I note that you ask for a 6-month cancellation notice. Would you be willing to 3 months or 2 months?

Mr. CASKIE. I would certainly be glad to take that under consideration if you think it is of importance.

Senator McCLELLAN. What I am trying to ascertain is this: This is a proposal for a lease. Of course, it is a 5-year lease.

Mr. CASKIE. Yes.

Senator McCLELLAN. But in connection with the proposal that was made for the interim operation the RFC and the Defense Plant Corporation, and the Surplus Property Board made a proposition on a 60-day cancellation, and I was wondering if you thought that that 6 months was of great importance—of course, it might be more desirable—but whether you could successfully close those plants, and so forth, in a 60-day period of time?

Mr. CASKIE. It would save us money, sir, if you would cut it to 3 months instead of 6.

Senator McCLELLAN. You would be willing to cut it down more?

Mr. CASKIE. I certainly would, but this was to give the Government 6 months' notice.

Senator McCLELLAN. No; it is to give you 6 months' notice.

Mr. CASKIE. Reynolds may cancel on 6 months' notice, effective after 1 year of operation. If you cut that to 3 months, it would be to Reynolds' advantage to do it.

Senator McCLELLAN. You say, "RFC shall have the right to cancel on 6 months' notice whenever aggregate rental payments for two consecutive quarters are not equivalent to an annual rental of $1,000,000."

Mr. CASKIE. You wouldn't want to cancel an agreement after one quarter. Should think you would want at least two quarters.

Senator McCLELLAN. But they have got to give you, under that statement, 6 months' notice before they could close out their contract with you.

Mr. CASKIE. That is true, and we have the 6 months' notice.

Senator McCLELLAN. The point I am raising is—would it be practical and feasible for both parties to reduce that time?

Mr. CASKIE. I don't know, but from our point of view we will be glad to give it consideration.

Senator McCLELLAN. You see what I am interested in is this. These plants are closed and I don't think there was any necessity for closing them.

Mr. CASKIE. Neither do I.

Senator McCLELLAN. I think it could have been handled so that they wouldn't have had to be closed.

Mr. CASKIE. I thoroughly agree with you and I will come to that a little bit later, too. [Continuing:]

15. General.—The plants shall be put in fully equipped condition for efficient operation, and Reynolds shall be indemnified against losses resulting from claims of adjacent or nearby property owners arising from the operation of such plants.

16. Assignability.—RFC may assign to another Government agency, but Reynolds may not assign except to a subsidiary.

OPTION TO BUY

17. Option.—Reynolds shall have the option during the lease to buy any or all of the plants, subject to the terms of the Surplus Property Disposal Act including the required approval of the Attorney General, on the following terms:

The peacetime reproduction value of the useful facilities shall be immediately appraised. From such appraised value shall be deducted depreciation from the date of construction to the date of purchase at the customary DPC rates of 12 percent on machinery, 5 percent on buildings, etc., and three-fourth of the profits and rental received by RFC during Reynolds' operation. Interest at 3 percent on the depreciating value of the plants shall be added. Terms are to be notes bearing interest at 3 percent and secured by mortgages on the plants, principal payments to be made in equal annual installments over a 30-year period.

Senator WHERRY. Does that mean the value shall be determined upon the earnings of the plant in peacetime?

Mr. CASKIE. No sir.

Senator WHERRY. I didn't quite get that; I don't have a copy of your statement.

Mr. CASKIE. I will be glad to furnish you with one.

Senator WHERRY. What does it mean? If you are going to purchase a plant, how do you value it?

Mr. CASKIE. You first appraise it.

Senator WHERRY. That is, the physical value of the plant?

Mr. CASKIE. Yes.

Senator WHERRY. Then what?

Mr. CASKIE. Then from such appraised value shall be deducted depreciation.

Senator McCLELLAN. That appraisal is based upon the cost of construction under normal conditions; is that correct?

Mr. CASKIE. Yes.

Senator McCLELLAN. And then depreciated.

Mr. CASKIE. I understand the RFC has this policy, whether it be aluminum plants or any other kind of plants. They get independent appraisers to appraise the value of the property, its reproduction cost under present prices. That eliminates the double time and the overtime and the time and one-half that was incurred in the construction of these plants. That is wartime costs that must be charged to our war program. Now from that they take depreciation that has accrued on the plant since it was constructed. But we also allow the Government 3-percent interest on that depreciated value. [Continuing:]

18. First refusal.—If Reynolds elects not to exercise its option, it shall have the right to buy any plant if it meets the best offer received by the Government.

Of course, if it can't do that it is out.

If we are able to work out a deal for the plants listed above, we desire to negotiate for one of the Government-owned sheet plants.

I might say in that connection that it was a sheet plant at Spokane that we had in mind.

SUBSIDIES AND GOVERNMENTAL AID

I have been struck with particular force with the discussion of subsidies in the operation of aluminum plants, whether they be privately owned or Government-owned, whether they be in this country, or in Canada. The industry has reached its present proportions through subsidies and governmental aid in one form or another.

Reynolds Metals Co. financed its own alumina and aluminum plants through its own credit and capital. It borrowed a total of $46,000,000 from the Reconstruction Finance Corporation on fully secured first mortgages on all of its properties. No one has ever questioned the sufficiency of the Government's collateral which we gave to it for the loan. We were the first and only company in the Western Hemisphere that has ever undertaken to compete with the Aluminum Co. of America and their counterpart in Canada. Although we were alone in this undertaking and brought our first plants into production in May 1941, it was in that same month and year that our Government went to Canada and there financed an enormous expansion of a company that was no larger then in the production of ingot than Reynolds is now. There they have power facilities largely financed by our Government and the British Empire through advanced payments for a total of 1,300,000,000 pounds of aluminum and otherwise, which has been referred to in the several reports now before you. They now have the largest and most efficient aluminum-reduction plant in the world as a consequence of our Government's aid.

Senator REVERCOMB. May I interrupt you there?

Mr. CASKIE. Yes, sir.

Senator REVERCOMB. Was that not done in the midst of war?

Mr. CASKIE. Yes.

Senator REVERCOMB. That was a war program. We are dealing here with the future peace program.

Mr. CASKIE. Yes; and I am coming to that right away.

Senator WHERRY. Mr. Caskie, do you maintain now that the Aluminum Co. of America owns and operates the Canadian company as a subsidiary?

Mr. CASKIE. No, sir.

Senator WHERRY. Then when you say "counterpart" what do you mean?

Mr. CASKIE. Well, it is a copy. The control of the two companies, I think, is in the hands of the same people.

Senator WHERRY. That is what I wanted to know.

Mr. CASKIE. And they object—and I think perhaps from a corporate entity standpoint—to saying that they are an affiliate. So I was trying to find something that would fit this very peculiar situation.

Senator WHERRY. So you call them a "counterpart"?

Mr. CASKIE. Yes; I think it is pretty good.

Senator O'MAHONEY. As I get your point, Mr. Caskie, it is this, that the people of the United States made an advance purchase of 1,300,000,000 pounds of aluminum for the purpose of constructing a plant in Canada which was capable of producing not only for war but for peace too, in the years following the war?

Mr. CASKIE. If it was only for the war that that plant was going to operate, we would feel very much more comfortable, the Reynolds Metals Co. would.

Senator O'MAHONEY. So this was a Government subsidy which extends far beyond the period of the war?

Mr. CASKIE. Undoubtedly.

Senator O'MAHONEY. And it was a Government subsidy from the United States to a foreign producer?

Mr. CASKIE. Yes.

Senator O'MAHONEY. That is my interpretation of it.

PROBLEM SHIPSHAW CONTRACTS PRESENT TO UNITED STATES POWER FACILITIES

Senator WHERRY. Mr. Chairman, I would like to ask Mr. Anderson a question. I think this Shipshaw contract was developed at one of our hearings?

Mr. ANDERSON. That is right.

Senator WHERRY. And we came to the same conclusions, practically, as testified to here, that there was a lower power rate and that we couldn't understand why it was that RFC would renew the contract; isn't that right?

Mr. ANDERSON. Very true.

Senator WHERRY. And they put it strictly on a war basis—at the time they had to have aluminum and were justified in going any place necessary to go to get it. They put it on that basis. Now when we brought it to their attention that we had more aluminum than we knew what to do with, it was my understanding that RFC canceled that contract; is that right?

Mr. ANDERSON. That is right. The then remaining portion of the new contract was canceled and at a saving of millions of dollars, as a result of the pressure, by the way, of you, and Senator Murray, and the other Senators on the Small Business Committee.

Senator WHERRY. We have made no other commitments now to take their output, have we?

Mr. ANDERSON. No.

Senator REVERCOMB. May I ask this question: Do you believe for a moment that this Government would have in any way entered into a contract under any plan of subsidy with the Canadian Government had we not been in the war? Don't you think it was a product of war?

Mr. CASKIE. I think this, Senator: I don't think it could be justified on any other ground than that the power, and the aluminum to be produced from it, could not be produced in this country.

Senator O'MAHONEY. I think Senator Revercomb is asking that question of me. [Laughter.]

Senator REVERCOMB. No; I am asking the witness.

Mr. CASKIE. I will say that I think the Secretary of the Interior and perhaps Dr. Raver—I may be wrong—have testified that had they been approached by the same parties in the War Production Board stating that this was required, steps could have been taken to have developed that power in the Pacific Northwest—or something to that effect. I may be wrong about it, but I understand that some testimony along that line was given.

Senator REVERCOMB. Not to digress from aluminum, but isn't that in the same class of cases—under the stress of war and the need for fast movement in war—such as the establishment of these airports on foreign soil, built with American money, which we can't even take a commercial plane into, and justified, then, by those who brought about those contracts, as a war measure? Isn't this a parallel case?

Mr. CASKIE. I think we can all draw our own conclusions.

Senator REVERCOMB. I should have said, "attempted to be justified."

Mr. CASKIE. I will say this: We made the best arrangement we could with the RFC to secure the money to build our own plants, and they required of us first mortgages, 4 percent interest payments, control over our officers' salaries, and then they turned around and made

this contract with Canada without reforming the provisions of our contract.

Senator REVERCOMB. Well, it has been recommended that you be given those benefits, hasn't it?

Mr. CASKIE. The Senate Committee on Small Business has recommended it.

Senator REVERCOMB. But getting back to the Canadian contract, wasn't that a wartime contract?

Mr. CASKIE. Unquestionably so.

Senator O'MAHONEY. There is no doubt about that. My point is that it was a wartime contract, a wartime subsidy contract, by the Government of the United States; but it was a subsidy of such vast proportions that it resulted in the construction of a facility which will operate long after the war. So that we have a continuing subsidy extending into the peace.

Senator WHERRY. And we did as much as we could, the administration did—I am coming to the defense of the administration—— [Laughter.]

Senator O'MAHONEY (interposing). Fine.

Senator WHERRY (continuing). To cancel the contract so that they wouldn't continue to purchase the aluminum in competition with this very firm that made that showing in that case.

Senator O'MAHONEY. That is not in issue here.

Senator WHERRY. I wanted to say that about the administration for your benefit. [Laughter.]

Mr. TROY. I just want to state that the subsidy was further enhanced by the Canadian Government in special tax allowances. In other words, they were allowed to amortize their plant immediately before paying taxes; so they owned it, lock, stock, and barrel, which they never would have done had the profits been taxable.

Senator REVERCOMB. And, I want to add, would never have been done had these countries not have been Allies in this war.

Senator O'MAHONEY. There is no doubt about that. But whatever the cause, the effect of what was done is clear, which is to make it more difficult for independent enterprise to operate.

Senator MCCLELLAN. I think, Mr. Chairman, we could say about this just what we could say about practically all lend-lease—that we did it to win the war, and we are going to find some ill effects from it in peace.

Senator O'MAHONEY. Now we are struggling with the results, and we want to know what is best to do.

Senator WHERRY. You don't recommend continued payment of subsidies, if we can avoid it, to bring the Canadian people into existence to help private enterprise in this country, do you, Mr. Chairman?

Senator O'MAHONEY. Senator, I am endeavoring to develop the facts so that we may lay the basis, if at all possible, to secure the operation of independent free enterprise.

Senator WHERRY. If you pursue that argument to the extreme, you would not only subsidize our own companies but all other companies in other countries, to create more business for private enterprise on the Western Hemisphere.

Senator O'MAHONEY. The Senator makes an argument which is not justified by what was said.

SUBSIDIZE POWER OPERATIONS

Mr. GOLDSCHMIDT. The contract that was settled was the second contract and not the basic contract under which this project was built. I would like to make one other comment, if I might, about the problem that Shipshaw presents to the power facilities in this country, because that is, as all aluminum operations are, largely a power facility. I think Mr. Caskie's testimony is intended to suggest that, in view of the fact that a project has been built in Canada which in effect subsidizes that operation—I am using that word, Senator Wherry—for peacetime as well, something perhaps ought to be done to subsidize power operations in this country. In other words, that what is sauce for the Shipshaw goose might be sauce for the Bonneville and Coulee gander. I think that was the line of argument.

Mr. DE LUCCIA. May I make a comment on that?

Senator O'MAHONEY. Yes.

Mr. DE LUCCIA. Yesterday Mr. Olds commented on the transmission line liability accruing to the operation of any of these plants. The fact is, I think, in that case, that the plants were located not as a company which might want to produce aluminum in peacetime would have chosen, but rather at the express dictation of WPB due to war conditions, with the result that you have a situation where the Canadian plant is located at the source of power, while these plants in the United States are located at the ends of transmission lines.

Now the point is that the transmission lines might well be eliminated in the sense of charging a plant for the power to maintain those lines, which would then reduce the plants in the United States to the same at-site basis, and would have a very material effect on the cost of power, probably reducing it to a mill or a mill and a half.

Mr. ANDERSON. Mr. Chairman.

Senator O'MAHONEY. Dr. Anderson, I just wanted to comment very briefly because the testimony on the Shipshaw matter is between my two hands; it is about 400 pages of detailed testimony. Some people criticized us for going back into history to draw it all together, but the Shipshaw case is going to be with us as long as we have aluminum problems and public policy, and it is here in the record that is available to all Senators and to the public generally.

It came to one conclusion on the testimony of Dr. Raver, who is sitting in this room. He said:

> Had there been a national policy to utilize fully our own power resources and to protect our own aluminum industry, our Government would have shifted the Canadian purchase to itself.

And he developed in testimony at that time that it could have been done, that it was entirely feasible if there had been a national policy with respect to power and power development.

Senator WHERRY. Right.

Mr. CASKIE. That was the testimony to which I made reference. [Continuing]:

> Moreover, they (the Canadian company) now have the largest private power plant in the world and are capable of producing power for the production of aluminum for one-half mill per kilowatt-hour, according to Mr. Symington's estimates, whereas our Government supplies us power at from 2 to 3½ mills per kilowatt-hour. Expressed differently, our power costs alone, and we get our power from the Federal Government, are from 1½ to 3 cents more per pound than the power costs of the Canadian company to produce a pound of aluminum.

That is some difference, gentlemen.

Senator McCLELLAN. How much more did you say it costs us?

Mr. CASKIE. From 1½ to 3 cents per pound more to produce aluminum, and I am speaking using Reynolds in the comparison.

Senator McCLELLAN. I see.

Mr. CASKIE (continuing):

So the question of subsidies is already established—it is a going concern—it is something we have to face every day and will be confronted with throughout the years to come. Moreover, Alcoa enjoyed large subsidized contracts during the war, being given all of the alumina plants built by the Government and all of the reduction plants built by the Government with one minor exception. Alcoa made substantial profits out of these Government-subsidized contracts, and with its profits is in a very favorable position to compete not only with the privately owned Reynolds Metals Co., but with the $700,000,000 worth of Government-owned aluminum plants and anyone who purchases or leases them. Its representative conceded yesterday that its joint power operation with the TVA, a Government agency, was a very profitable one.

Another interesting development in this hearing has been whether the Government should go into the aluminum business. I thought everybody understood that the Government already was in the aluminum business. The Government owns 3,000,000 tons of bauxite. The Government owns $700,000,000 of alumina and aluminum-reduction plants. The Government owns power facilities and hundreds of thousands of kilowatts capacity that cannot be used for any other purpose than producing aluminum. The only question the Government has is not whether it will go into the aluminum business but how it will operate now that it is in the aluminum business, and how it can best get out of the aluminum business and recover its enormous investments in that business. The Government could operate an aluminum business itself, but no one favors that. The Government could close down the aluminum plants and throw away the enormous investments involved in it just as it did Muscle Shoals in the last war. If such a policy is to be adopted generally for disposal of war plants, it means the loss of many billions of dollars in Government plants built during this war, and moreover, gentlemen, it means we will not have the jobs represented by these plants.

Senator WHERRY. Mr. Caskie, do you think we ought to operate such plants as the Maspeth—Queens plant?

Mr. CASKIE. No, sir; I do not.

Senator WHERRY. You mean we should only lease the ones where there is a chance to make them self-sustaining?

Mr. CASKIE. You are absolutely correct, Senator.

The third policy might be to give these plants to the Aluminum Co. on any terms it wants or on such terms as they enjoyed during the war when they were the only company given these Government plants, with one minor exception, without assuming any loss from operations.

GOVERNMENT SHOULD OPERATE PLANTS TEMPORARILY

The fourth policy, and the only one which I understand underlies the various reports under consideration here, would be that of operating the plants with the bauxite already owned by the Government and the power that would otherwise go to waste for the interim period that must necessarily expire before private industry, particularly the railroad, automobile, and transportation industries, can switch to aluminum and thereby create a market for these plants at a substantial part of their cost. When that is done you will have established the value of these plants to private industry, and private industry, including the Reynolds Metals Co., will then be interested in buying them—and not until then.

The Reynolds Co. favors this fourth method of disposition, although it is a privately owned company and it will be taking the chances of competition with those Government plants which ultimately may belong to the railroad, automotive, and other industries. Reynolds welcomes that kind of competition because it believes it is only through competition that potential users will be induced to switch to aluminum. Reynolds believes when they do switch to aluminum there will be plenty of business for Alcoa and anyone else in the business.

ALUMINUM SHOULD BE STOCK-PILED

These hearings have been very helpful in clarifying the situation. The discussion of legal points involved by Mr. Cox and Mr. Goodloe makes it clear that they do not believe that either the Surplus Property Administrator or the RFC can properly make a contract in accordance with the proposal suggested by the Reynolds Metals Co. unless additional statutory authority is given to them by the Congress which would permit them to purchase ingot. The Government already has acquired the bauxite for national defense purposes and the ingot would provide an even greater security.

The Army-Navy Munitions Board has recommended to the Senate Military Affairs Committee that aluminum be stock-piled. So far as we know, the exact amount has not yet been disclosed, but in the event the Congress agrees that aluminum should be stock-piled there will, of course, as a part of that program, be granted authority to some Government agency to purchase ingot.

Senator REVERCOMB. Mr. Caskie, may I at this point ask you, for my own information, if you can stock-pile aluminum in the open or must it be in sheds?

Mr. CASKIE. Well, we stock-pile it in the open.

Senator REVERCOMB. For what length of time?

Mr. CASKIE. We would prefer to stock-pile it under a shed, but we do stock-pile it on the outside.

Senator REVERCOMB. For what length of time would you say it might be safely stock-piled?

Mr. CASKIE. I couldn't tell you, Senator.

Senator REVERCOMB. Excuse me for interrupting you.

Mr. CASKIE. Interrupt me whenever you want to, Senator.

Senator McCLELLAN. It may have already been stated and may be in the record, but what is the value of this stock pile of bauxite that we have down there; do you know?

Mr. CASKIE. I don't know anyone who could give you that figure unless it might be the RFC. They purchased that 3,000,000 tons.

Senator McCLELLAN. I just wondered what was the Government's investment in that?

Mr. CASKIE. I imagine it is a very substantial one.

Senator O'MAHONEY. Mr. Wilson entered the room a few moments ago, and perhaps he can answer that question about the stock pile.

Senator McCLELLAN. Do you know, Mr. Wilson, what is the value of the bauxite stock pile down at the Hurricane Creek plant?

Mr. WILSON. I do not know the exact value, but I would expect it was around $4 a ton, or slightly less. If there are 3,000,000 tons that would amount to around $10,000,000, without attempting to be exact.

Senator O'MAHONEY. And how long could aluminum ingot be stock-piled in the open?

Senator REVERCOMB. Safely.

Senator O'MAHONEY. Yes.

Mr. WILSON. It suffers a certain amount of deterioration that would require a little bit of rehabilitation when it came to be used, but other than that it could be stored for 20 or 30 years, or, to all intents and purposes, indefinitely.

Mr. CASKIE (continuing). In fact, a bill (S. 1481) has already been introduced by Senator Johnson to provide for the acquisition and retention of strategic materials by a board to be created and to be known as the Strategic Materials Stock-piling Board. In the event that this program should obtain the approval of Congress, the question as to the legal authority to accept a proposal such as that now submitted by the Reynolds Metals Co. would be removed, providing the wording of the bill was such as to grant authority for the use of Government funds to carry out the purposes of the bill.

In fact, I think it might be desirable for this committee to call the national security feature of the stock-piling of aluminum ingot to the attention of Mr. Cox and Mr. Goodloe for the purpose of obtaining from them an opinion as to whether there would not be even now authority to purchase the ingot where that purchase was made for the benefit of national security.

Until this legal situation is fully resolved, it will be impossible for us to proceed further with our proposal despite the fact that we, from the very beginning, have recognized the importance of keeping these plants in operation and providing employment instead of incurring enormous expense to the Government to keep them idle. In fact, when Alcoa refused to continue operating the plants under the lease subject to the short-term cancellation of 30, 60, or 120 days, and made that refusal despite the fact that their lease fully protected them against any loss, Reynolds Metals Co., because of its desire to aid the Government in this situation, offered to take the much more difficult task of coming into the plants and continuing to operate them for an interim period until the Government could make arrangements for their continued operation. A copy of this telegram I quote:

To Mr. W. Stuart Symington, Surplus Property Disposal Board, Munitions Center Building, Washington, D. C.: I have just been informed that the Government's Hurricane Creek alumina plant and several aluminum reduction plants are being closed down and trained workers are being dispersed. Unless immediate arrangements are made to continue operations pending disposition of plants any future operator of these plants will be seriously handicapped and future efficiency during an extended retraining period will be impaired to such a degree as to make competitive operations difficult. We understood Alcoa refused RFC's request to operate these plants on a temporary basis pending negotiations for disposition of them. In the interest of preserving these plants and maintaining employment we are willing to immediately operate Hurricane Creek alumina plant and Jones Mill, Troutdale, and Spokane reduction plants on same terms as Alcoa's as proposed in Sam Husband's letter to you which was made public at hearing of Senate War Investigating Committee at Spokane, August 21, 1945. Would like to confer with you at your earliest convenience regarding this important matter.

REYNOLDS METALS CO.,
R. S. REYNOLDS, *President.*

We conferred with Mr. Symington following the sending of that telegram and discovered that under no circumstances could Reynolds get into those plants to operate them until November 1.

I understand that the committee asked whether Reynolds Metals Co. would be willing to eliminate the provision for the purchase of ingot from its offer. Until the legal situation is fully clarified, including the question of whether recommendations of the Army Navy Munitions Board are to be followed, it would be undesirable from every standpoint to make this complicated situation more confounding by attempting to change the offer. The ingot-purchasing provision is one of the most important provisions in that offer. If it is to be eliminated, it would be necessary to revise the offer completely and make an entirely new one. The Reynolds Metals Co. has been and is willing to negotiate in any way that is reasonable for the acquisition of these plants and will continue to do so when the Government has determined its position sufficiently so that it is possible for Reynolds to ascertain just exactly what policies would have to be met in formulating an offer.

Senator WHERRY. Mr. Caskie, on that statement you made about the production costs in Canada compared with yours, about what was the difference per pound?

Mr. CASKIE. Just on power alone, Senator, taking Mr. Symington's estimate in his report of a half a mill per pound of aluminum as against our more than 3 mills in Alabama, it makes a difference of about 3 cents.

Senator WHERRY. Isn't there a tariff of about 3 cents on pig or ingot?

Mr. CASKIE. Yes.

Senator WHERRY. What I am getting at is this: In the future, should that tariff be raised to protect home industry?

Mr. CASKIE. I should certainly say so.

Senator WHERRY. So that brings it up to the difference in cost figure; but in order to protect home industry, you would advise that that schedule be raised?

Mr. CASKIE. Yes. But here is the situation: We want to develop and expand in the aluminum industry, and we want to compete with Canada in other countries besides the United States, and they start off with that advantage of 3 cents per pound.

Senator WHERRY. For which we now exact a 3-cent-a-pound tariff on its importation in here.

CHEAP POWER IMPORTANT FACTOR IN ALUMINUM PRODUCTION

Mr. CASKIE. Yes; but that applies only if it comes in here.

Senator O'MAHONEY. It is clear from what has been presented to this committee that one of the most important factors in making it possible to bring about the operation of these plants in a competitive economy is the question of cheap power. It appears that independent operators will have to compete not only with the ability of Alcoa to obtain cheap power but the ability of the Canadian company to obtain cheap power.

I therefore ask a question of Mr. Goldschmidt and Mr. de Luccia, who are here, whether, in their opinion, there is a possibility of our developing a cheaper power for the operation of these aluminum plants than is now available?

Mr. GOLDSCHMIDT. Well, Mr. Chairman, I think in Mr. Caskie's testimony and in the report of the Small Business Committee, Mr. Caskie and the Small Business Committee spoke of more flexible power arrangements, and I think in suggesting more flexible power arrangements they were talking of the fact that in Bonneville and the TVA, power is sold on these enormous aluminum contracts on a 20-year basis.

The Bonneville contracts for aluminum power are flexible to some extent. The operators of the plants, both Reynolds and Alcoa, are permitted to cut back their operations during the life of the contract without paying the full power bill.

But from the standpoint of the Government's interests, we sought in these contracts to secure the longest-term contract that we were permitted to make, in order to be sure of an income to pay back to the Government its investment; and on that basis we made these 20-year contracts.

I think that on that point of flexibility, it might be possible, upon a review of the entire pay-out picture of Bonneville and Coulee, for instance, and of the Army program in the southwestern area, to, in effect, lower our conditions, if not our rate, by making contracts for a shorter period of time.

I want the committee to understand that the request for such greater flexibility means that the Government, with its investment, should take the rise and fall of the business cycle as the industry would that is a customer of the Government.

Our contracts have been an effort to assure the Government an income at any and at all times, from these projects, because we wanted to be certain that the projects would pay out.

There has been a great deal of discussion among ourselves about this matter of taking some of the risk by making less stringent contracts for industrial operations. I might say that that discussion has been intensified by a great deal of interest in this aluminum question, and not only in aluminum but in other electrochemical and electrometallurgical industries.

As to a reduction of the power rates themselves, that is to say, a material reduction from Bonneville's $17.50 rate, which today is the lowest Government power rate that Alcoa, Reynolds, or anybody else gets, and is the only rate upon which substantial blocks of power can be secured for future aluminum operations at the present time, I don't think that that rate—and I am speaking now without a thorough study or restudy of the entire situation—I don't think that that rate can be materially reduced without action by the Congress to reduce those rates. This is not to say that I favor such action.

I do think, though, that these might be a recognition of the very close relationship between large Government hydro developments and the aluminum industry particularly, or I should say the heavy-power-consuming industries that consume power on high-load factor—as magnesium is and as some chemicals are. That relationship is extremely close, and in the interest of conservation of power resources—Mr. Caskie speaks of power going to waste at Bonneville Dam, and it is going to waste today—in the interest of conservation of resources, there is quite possibly an arrangement that can be made with respect to nonfirm power. That sort of an arrangement has been made by the Ontario hydro development in Canada. There they sell nonfirm power at lower rates. That nonfirm power would be power that is available at a hydro plant during the wet years. Our capacity and our pay-out, the pay-out for the cost of operation, is based on the worst possible conditions; namely, the dry years or the poor water years. It so happens that I have to say "poor water years," because at Bonneville our capacity is actually reduced

at high water rather than at low water, but as to most of the dams in the West our worst danger is drought, as it is in the TVA.

It is quite possible that arrangements for power rates can be made for secondary power—that is, power that is available during those years that aren't the worst possible years. That would mean, though, that the power would be available when we said it was available and not when the customer said it was available. That would be power that we have that we would expect to go to waste, unless it could be sold as a utility or industry that can use that kind of power.

On a system such as Bonneville and Coulee, I am told that you can predict when you are going to have a bad year fairly well ahead of the actual low- or high-water period that affects the operation of your dam. So that any prospective user of nonfirm power would have ample notice when its use must be curtailed.

Power rates, of course, in our business, are available and such a secondary rate would normally be available to everyone. We are not permitted to discriminate as between one or another customer, and it should properly be available to everyone.

Senator O'MAHONEY. When you speak of congressional action, what did you have in mind?

Mr. GOLDSCHMIDT. Oh, I spoke before of congressional action in connection with actually reducing the firm power rate by wiping out all or part of the requirement to repay our investment. I am not advocating that, Senator. I am merely saying that that could be done.

Senator O'MAHONEY. I understand.

Senator WHERRY. The way it is set up now, you have those rates, and if you wanted to change them it might jeopardize the amortization of the whole investment, and you would want congressional authority to do that?

Mr. GOLDSCHMIDT. That is right.

In my opinion, the present $17.50 rate is not in jeopardy and would not be jeopardized by a small reduction in that rate, but a reduction that would be so great as to affect aluminum operations, could not be made without a change in the payment requirements; in other words, what I am saying there is that there is enough fat in the $17.50 rate so we might reduce it to $17 without any danger at all to the Government of the United States. But such a slight reduction would not affect materially aluminum operations.

Senator O'MAHONEY. What would be the secondary power rate?

Mr. GOLDSCHMIDT. The question of what that rate should be is a very complicated one. It would depend entirely upon the amount of investment devoted to that secondary power; it would depend on whether that secondary power was taken 80 percent of the time or 90 percent of the time or 75 percent of the time. In other words, what a secondary power rate for aluminum, or any of these electrochemical operations, requires is an extremely close relationship between the power supplied and the power consumer.

Senator O'MAHONEY. Would it be feasible for an aluminum operator to depend upon secondary power?

Mr. GOLDSCHMIDT. I am told that the Aluminum Co. of America has, in the past, operated on secondary power; yes, sir.

Senator O'MAHONEY. Mr. Caskie, would it be possible to depend upon secondary power?

Mr. CASKIE. Yes, sir.

Mr. BORCHARDT. Exclusively?

Mr. CASKIE. No, not exclusively. You have to have a certain amount of firm power so as to keep your pot lines from cooling off and having to reopen them again.

Mr. ANDERSON. That poses the question, Mr. Goldschmidt, whether it isn't possible for the public power projects to reexamine their own operating structure in terms of supplying a maximum of secondary power, fitting it into the operations of the aluminum companies that will be operating these plants?

Mr. GOLDSCHMIDT. That is right.

Mr. ANDERSON. Which would make it quite possible, I take it, to develop a power rate quite different from the $17.50 that now prevails even at Bonneville?

Mr. GOLDSCHMIDT. We have been having informal discussions with Reynolds and just about everybody else on this problem, Senator, with a view to finding that appropriate rate for this secondary power. I might say that not only aluminum operators but other outfits are interested in the use of secondary power.

Senator O'MAHONEY. Let me interrupt you to ask if I get the correct picture. I want to make it clear that I am not an expert on power at all, and I am merely looking for information.

We have a situation on these public power projects whereby available power, which can be delivered day by day, now is not being used, or will not be used if these plants are closed down. Is that correct?

Mr. GOLDSCHMIDT. That is right, we have that condition now, sir.

Senator O'MAHONEY. So there is an actual nonutilization, or we might even go so far as to say waste, of potential power which could be used if there were facilities to use it?

Mr. GOLDSCHMIDT. That is right, sir.

Senator O'MAHONEY. We have a vast Government investment in aluminum plants which might successfully operate if they had an opportunity to use this power, which is now being wasted, at a rate lower than that which is now being offered by the public power facilities, but which is not being used?

Mr. Goldschmidt I want to point out that in our pay-out studies—that is, in our studies of whether our project will be sound, our estimates on which we have based our rates—we have assumed that there will be depressions during which we do not sell all of our power output. But a reduction in the rates for power, based upon a depressed market might seriously affect our ultimate payments.

I want to make this further comment with respect to secondary power in the Northwest, we don't have so much of it now as we will have when the projects are further along toward completion. While at Bonneville Dam we do have secondary power, at Coulee we have a capacity that is equal to our lowest water year. Of course any additional capacity at Coulee will produce secondary power, first for the irrigation pumps and second for this kind of sale, and it is good stuff to sell.

Senator O'MAHONEY. So here we have public power which is not being utilized, but which might conceivably be used to prevent the complete loss of a great public investment in aluminum plants?

Mr. GOLDSCHMIDT. That is correct.

Senator WHERRY. Mr. Chairman, in view of that statement, may I ask Mr. Caskie if he would have a greater interest in an outright purchase or in a lease than he has had heretofore, if such a power rate could be made available?

Mr. CASKIE. I think so.

Senator WHERRY. Then I want to suggest to the chairman that if that is true, others might be interested also.

Senator O'MAHONEY. Surely.

Senator WHERRY. So why should we not extend the time in which we have to make up a policy of whether we are going to make an outright sale or lease——

RESOLUTION TO BE INTRODUCED

Senator O'MAHONEY. I think it might be very desirable to do that.

I may say that this morning I have been in conference with Senator Revercomb, whom I understand was also in conference with you, with respect to this matter, and we have instructed, at Senator Revercomb's suggestion, the counsel of the committee to draw a resolution, the purpose of which is to bring about an extention of the time.

We are interested, of course, in finding a way to protect the people's investment in these plants if it can be done. And so the resolution which has been drafted reads as follows, omitting the title:

Joint resolution to extend, in the case of aluminum plants and facilities, the time during which disposition of such plants and facilities is prohibited under the Surplus Property Act of 1944, as amended.

Resolved by the Senate and House of Representatives of the United States of America in Congress assembled, That subsection (c) of section 19 of the Surplus Property Act of 1944, as amended, is amended by inserting after the words "thirty days" the following: "(or sixty days in the case of aluminum plants and facilities)".

Senator WHERRY. That is a concurrent resolution?

Senator O'MAHONEY. No, a joint resolution.

Senator WHERRY. Does that conform to the wording of the resolution, do you know, that was placed in the House yesterday?

Senator MCCLELLAN. I don't know, I haven't seen the resolution placed in the House yesterday, but I think the one introduced in the House was a concurrent resolution, which would not meet the situation. It would have to be a joint resolution.

Senator O'MAHONEY. That is right, a concurrent resolution would not be law.

Senator WHERRY. I suggest that our counsel confer with the introducer over there, and you might get the language the same. That would save some time.

Senator REVERCOMB. Do I understand that the chairman would introduce the resolution today?

Senator O'MAHONEY. I thought that the Senator might want to take the initiative in that.

Senator REVERCOMB. I would be very glad if the chairman would introduce it for the committee.

Senator MCCLELLAN. It strikes me that those who have been interested in this hearing and members of this committee might all join in the introduction of it and sponsor it, because certainly with a more or less unanimous view and opinion supporting the resolution, from the committee that has been active in these hearings, it would carry more weight.

Senator O'MAHONEY. That would be quite agreeable.

Senator REVERCOMB. May I suggest that we handle it through the chairman of this committee, with all of us joining in the presentation

of it; and we must bear in mind that the Senate meets today probably for the last time before the 21st, and I take it that the chairman will ask immediate consideration of the resolution.

Senator O'MAHONEY. Oh, yes; surely.

What we are seeking, of course, is a constructive solution of one of the most difficult and momentous problems that confronts this country.

Senator WHERRY. That is right.

Senator MCCLELLAN. And, Mr. Chairman, there is simply not adequate time for even this committee to make a sound decision and to weigh things carefully before the 21st of this month.

Senator O'MAHONEY. That is right. And let me call attention to the fact—I happen to be one of those who was on the committee working on the original Surplus Property Act—but the provision now in the law requiring the submission of these reports to Congress before any disposal action was taken was very vigorously opposed by some who were of the opinion that Congress should place no limitation upon the authority of the disposal authorities to hand over Government plants. The majority of the committee, and finally the full committee, were of the opinion, however, that these vast properties should not be sold or leased without the knowledge of the Congress of the United States. And as the bill passed the Senate, as I recall, the requirement was for a report on both leasing and sale. But the House conferees insisted that leases could be granted without report to Congress.

Senator REVERCOMB. For a term of 5 years.

Senator O'MAHONEY. Yes.

It should be borne in mind that the Surplus Property Board has not attempted to exercise that power.

I note that it is nearly time for adjournment——

Senator MCCLELLAN (interposing). Before we adjourn, Mr. Chairman, may I insert in the record the telegrams to which I referred earlier?

Senator O'MAHONEY. Yes, Senator McClellan.

Senator MCCLELLAN. I have received a large number of telegrams from citizens of Arkansas and from many civic organizations, urging continued operation of the aluminum plants in Arkansas by private industry.

I shall not take the time to read all of these telegrams into the record, nor shall I ask that they all be made a part of the record, but I do desire to read one or two of them, which express the sentiment of all, and ask that a list of the authors of the telegrams be inserted in the record. (Telegrams follow:)

Arkansas has furnished labor to all sections of the country during the war emergency and closing of aluminum industry in Arkansas impedes reconstruction and full employment. Therefore we urge and insist these plants be reopened and operated by private industry at once.

LEE F. TUCKER,
Staff Representative,
United Steel Workers of America, CIO.

Arkansas labor has worked faithfully during the war emergency and closing of aluminum plants in Arkansas is blocking reconversion and full employment. Therefore, we urge and insist these plants be reopened and operated by private industry at once.

CARPENTERS LOCAL UNION 2321, A. F. of L.

The Fort Smith Chamber of Commerce and city and county officials heartily endorse the Arkansas congressional delegation's efforts to retain the aluminum plants in Arkansas. We hope you will do everything in your power to assist them in their efforts.

A. D. MURPHY,
Manager, Fort Smith Chamber of Commerce.

Present policy of governmental agencies is closing aluminum industries of Arkansas. Since Arkansas has most of the bauxite deposits of the Nation we feel that it should be processed in this area. Arkansas citizens insist that operations be continued by private industry on terms that will provide most efficient and longest operations.

SALINE COUNTY CHAMBERS OF COMMERCE.

(The list of the authors of the telegrams is as follows:)

List of telegrams filed October 14 and 15, 1945, from Arkansas businessmen, labor organizations, and civic and commercial clubs endorsing the unanimous stand taken by the Arkansas delegation in Congress in their effort to maintain the operation of the alumina plants at Hurricane Creek and the aluminum plant at Jones Mills:

Pine Bluff.—R. L. Steiglerk; Chas. S. Mc New, president, chamber of commerce; N. J. Gantt, Jr., attorney; Pinchback Taylor; Walter N. Trulock; Chas. A. Gordon, Simmons National Bank.

Arkadelphia.—Lions Club, Rotary Club, Chamber of Commerce.

DeQueen.—DeQueen Commercial Club, Ralph B. Kite, president.

Hamburg.—S. A. Wilcoxson, president, Ashley County Development Council.

Hope.—Lyle Brown, president, chamber of commerce.

Fort Smith.—A. D. Murphy, manager, chamber of commerce.

Rogers.—Rogers Chamber of Commerce, Don Hoyt, secretary-manager.

Hot Springs.—Painters Local Union 401, Clyde Wacaster, financial secretary.

Conway.—W. D. Cole, president, Conway Chamber of Commerce; G. L. Bahner, chairman, Faulkner County C. E. D.

Hampton.—Furlow Abbott Co., Inc., by W. L. Furlow, secretary; R. N. Lyons, abstractor; T. N. Means, county and circuit clerk; Searcy Harrell, banker; B. N. Harrell, banker; C. I. Abbott, merchant; C. N. Primm, farmer; W. G. O'Mary, merchant.

Benton.—Lee F. Tucker, staff representative, United Steel Workers of America; Business and Professional Women's Club of Benton, Fannie Richards, president; Benton Lions Club, Lorell L. White, president; H. A. Reeves, president, Benton-Bauxite Rotary Club; Saline County Chambers of Commerce; Carpenters Local Union 2321, A. F. of L.

Malvern.—Veterans of Foreign Wars, William J. Jones, post commander; Malvern Lions Club, Glen Knauts, president; Junior Service League of Malvern; Malvern Rotary Club, J. H. Beerstecher, president; American Legion Post No. 11, by Ewell Titzhugh, commander, Jewell Westerman, adjutant, Hoy Williams, treasurer; Ernest Cunningham, president, Central Trades & Labor Committee; United Brick & Clay Local No. 602; Production Workers Local No. 1074; Sawmill & Timber Workers No. 2571; United Textile Workers No. 2665; Van Veneer Workers No. 2658; Carpenters Local Union No. 1674.

West Memphis.—W. P. Patton, president, West Memphis Rotary Club; E. J. White, president, Bank of West Memphis; W. M. Smith; W. O. Byler; Melvin P. Dacus, mayor, West Memphis, Ark.

Marion.—Z. T. Bragg, president, Bragg Motor Co.; E. L. Hickenger, commander, Crittenden Post 53, American Legion.

McGehee.—W. E. Thompson; Fay Joiner, mayor; H. Johnson, Johnson Lumber Co.; W. M. Jackson.

Warren.—Warren Chamber of Commerce, Warren Rotary Club.

Harrison.—R. A. Cox, president, chamber of commerce; Ron Bailey, manager, Harrison Chamber of Commerce; Rabie Rhodes; W. T. Bradley, Hotel Seville; M. D. Putty, M. & A. Railway Co.; the Security Bank, C. C. Alexander; T. C. Heuer, president, Harrison Building; L. A. Watkins, M. & A. Railway Co.

Little Rock.—Grover T. Owens, Arkansas Economic Council, State Chamber of Commerce.

Crossett.—Crossett Junior Cahmber of Commerce, Woodrow Hines, president.

Senator O'MAHONEY. We will reassemble at 2:30 this afternoon.

(Whereupon, at 12 o'clock noon, a recess was taken until 2:30 p. m. of the same day.)

AFTERNOON SESSION

Senator O'MAHONEY. The committee will now be in session.

Senator REVERCOMB. Mr. Chairman, I must ask to be excused for a short time in order to attend another subcommittee of the Senate Military Affairs Committee which is hearing a report at this time from the Navy on the subject of demobilization.

Senator O'MAHONEY. I would like to be present at that meeting myself.

I observe Chairman Olds, of the Federal Power Commission, here. This morning we had a very interesting statement from Mr. Goldschmidt with respect to the feasibility of reduced power rates from the Bonneville group. I wonder whether it would be possible for the Federal Power Commission to make a report to this committee on the question of the possibility of better rates?

Mr. OLDS. You mean subsequent to this hearing?

Senator O'MAHONEY. Yes. I don't want you to do it today, because we scarcely have time enough to hear the witnesses who are here.

Mr. OLDS. I would be glad to do it.

Senator O'MAHONEY. I would also like a statement from TVA on the matter, but the representatives of TVA are not present today.

This morning, while Mr. Caskie was testifying, the chairman received a card from Representative Debs, of the California Legislature, who indicated a desire to make a comment, which I assumed was apropos of the testimony being given by Mr. Caskie.

Are you prepared to make a statement now?

Mr. DEBS. Yes, Mr. Chairman.

Senator O'MAHONEY. I do not mean to admonish you that we are laboring under a very limited time schedule at the moment.

Mr. DEBS. My statement will be very brief.

STATEMENT OF ERNEST E. DEBS, A MEMBER OF THE STATE OF CALIFORNIA LEGISLATURE

Mr. DEBS. I am Ernest E. Debs, a member of the California Legislature, and as such I am a member of the aviation committee of the legislature and chairman of the southern California Democratic group in the assembly.

The position of California has been discussed in the legislature and will be in the pending special session of the legislature soon to be called in my State. We come here today to make our statement in brief terms that California is facing a serious crisis.

The unemployment rolls in our State are mounting steadily, and unless a disposal of these surplus properties is accomplished in a short period of time our unemployment-insurance rolls will dissipate the money now impounded in our State.

Speed of action in the disposal of these properties will, of course, provide jobs.

California's contribution—and I may say that of the entire West—to the war effort has been tremendous. We are faced now with a reconversion period as a result of that contribution, and as California and the West is a new frontier, so to speak, in the industrial field, the action of the Congress of the United States in assisting us in our reconversion period is indeed vital.

If these properties are to be disposed of in an equitable way to local people within that area on reasonable terms which will make it possible for them to operate these as well as protect the Government's interest, you will be indeed doing a service to the entire West, for we will help all business throughout the Nation. The raw materials that will be consumed will help the mines throughout the West. The aluminum extrusion mills are just a part of this over-all picture, and you have mentioned it quite extensively in these hearings. I would remind you that the Government has tremendous investments in other properties in our area.

The greatest opportunity to dispose of those properties is now, for the markets are new markets comparatively. Products are now being frozen for this year's models in automobiles and all other items. Most of the plants have new purchasing agents, new credits are available, new products are being developed now. If delayed, we lose the opportunity to get started in this reconversion period. We lose the jobs, we lose the skills, and the greatest benefit to the West has been these new citizens of America who have come to our section of the country, for they represent the know-how in industry.

In closing, I would remind you that there is no competition in aluminum fabrication now in all the West. Yesterday a sheet and extrusions company on the west coast had to buy direct from New York. The prices of Alcoa and Reynolds in sheets are the same. Prices of extrusions by Alcoa, Reynolds, and Bohn all are the same.

In appearing here today, I merely say that delay is of the most vital importance to this new western industry, and I appeal to the Senate and to everybody concerned for an orderly process for the protection of the Government and for the protection of the taxpayers of our State. If this problem is not solved, the taxpayers, in the long run, are going to pay the bill, whether you lose it in the investments already made or in the relief rolls in the support of people who are out of work. It is in that respect that I appear here today and hope that the solution to this very vital problem will be forthcoming within the near future.

Mr. Chairman, that is the conclusion of my statement, and I would, if you would permit me, like to call upon Mr. Harvey, one of the small businessmen of the West who will, perhaps, augment for a moment or two some of the problems with regard to small business.

Senator O'MAHONEY. I am very happy, Mr. Debs, that you have made that statement and have called particular attention to the West.

It has long been my belief that the possibilities for development in the West have been completely overlooked. Even before we became involved in the war, I introduced a resolution, later passed by the Senate, authorizing the Public Lands Committee to make an investigation of the possibility of stimulating the development of the natural resources of the West by competitive private industry. The war interrupted those studies, but sufficient progress was made to call the attention of various Government agencies to the undeveloped resources of the West.

Partially, as a result of what was presented before the Senate Committee on Public Lands, the RFC and Defense Plant Corporation undertook to invest public funds in the development of these resources which have resulted in the construction of these various facilities that are now the property of the Government and which will either be operated or left idle.

You have emphatically called attention to the serious social results that will follow if they are not operated, and I am grateful to you.

Senator MURRAY. Mr. Chairman, in this connection, I might call attention to the fact that there is pending in the Congress now the Missouri Valley Authority bill which offers the greatest opportunity for the development of the resources of the West, solving this problem of expansion of industry and providing full employment for the industry and providing full employment for the American people.

Senator O'MAHONEY. Might I ask the Senator who introduced that bill?

Senator MURRAY. That is a military secret.

Senator O'MAHONEY. I shall ask Mr. Harvey to wait a little bit, because we want to hear from Mr. Troy, of the Eastern Metal Products Co.

Chairman Olds, I wonder if you would be good enough to include Boulder Dam in the report that you make?

We want the whole story.

Mr. OLDS. Yes, sir; I will include Boulder.

Senator O'MAHONEY. Very well, Mr. Troy, you may proceed.

STATEMENT OF ARNOLD TROY, EASTERN METAL PRODUCTS CO.

Mr. TROY. Senator O'Mahoney and members of the attendant committees, thank you very kindly for the opportunity of this forum. I will be as brief as possible in view of the crowded agenda at hand.

I am prefacing my remarks and statements with the notice that I have read the committee's interim report, Attorney General Clark's report, and Mr. Symington's report. I have also been present at these hearings. It appears to me that the basic findings, the proposals based on these findings, and the hopes for the future are, in all cases, materially the same. This, I believe, also applies to the attitude of the RFC. The value of these reports is unquestioned. They bring the issues clearly to a head.

At this point it should be noted that the RFC has been extremely cooperative in its endeavors to obtain interested parties and to help interested parties determine the qualities and opportunities to be found in the plants declared surplus and made available by the Surplus Property Board. In cases other than the light metals fields, because of the general competitive economy of those industries, no problems of disposal were as prevalent. It is obvious that the prospective purchaser having met all of the objectives of the Surplus Property Act ranging from (a)—(s) must then meet condition (t)—which refers, I may say, to the highest bidder value. In the light metals fields, however, because of the general noncompetitive condition that exists and has existed, objective (t) cannot be met.

As a net result the RFC, with all its desire to follow the general pattern as established, could not enter into any form of tentative arrangement and could not establish the Government's tenable position. The policy-forming Surplus Property Board likewise found itself at a disadvantage because no official statement was forthcoming from the Congress as to a basic formula for the distribution of these light-metals properties involved. To that, partially, might be attributed the lack of sound proposals up to this time. To the fact also that investigations were under way in the industry, might be attributed a great lack of desire on the part of prospective purchasers to make their position known, since they themselves could not determine what that position should be. The results of these investigations, would, in a measure determine their offer.

We ourselves are interested in obtaining the reduction and extrusion plants located in Los Angeles. We would also want to obtain some Defense Plant Corporation-owned forging equipment. However, up to this time, we have found that it is impossible to make an offer since the uncertainty of this entire situation handicaps the formation of a progressive program.

For instance, is there going to be an Army-Navy Munitions Board stock pile and if so, in what quantities? Can the Government arrange a contract with a "guaranty against loss" feature—similar to the one Alcoa enjoyed during the war? Can a Government agency arrange for the purchase of a stock pile at the time a lease is arranged? The basic formula must be established by Congress as an over-all policy and the problem cannot and should not be treated only as part of a specific proposal.

"CREATE A MORE COMPETITIVE CONDITION IN * * * BASIC PRODUCING INDUSTRY"

There should be a sharp line of demarcation established between that part of the aluminum industry which Alcoa has monopolized and that part that has been more or less subject to competition. The basic "pig" production has been subject to a definite Alcoa monopoly and the courts have so decided. The semifabricated, and the fabricated end have not been so judged. However, it should be kept in mind that control over the basic material can easily set the pace in those competitive fields.

The price of the basic material, the rate of delivery, the policies in general of the producer, all tend to establish the scope of competition in the semi- and full-fabricating ends. Establish more basic suppliers of the base material and the second and third step plants would more readily find buyers. The field of prospective buyers would grow immediately and healthier offers would be forthcoming. Even the operator of a successful reduction plant would develop a stronger desire to establish integrated operations and be on a sounder footing. The net gain to the Government would be drastic. You would create the value of these second- and third-step plants by removing them from the realm of Alcoa's dominance. The figure $700,000,000 worth of Government plants (at cost) has generally been used as constituting the value of aluminum plants that must be disposed of in order to create a more competitive condition in the field. Actually this is not the amount that should be under immediate consideration at this time.

In order to establish a more competitive condition in the entire industry all that needs be done is to create a more competitive—with all due respect to Reynolds—basic producing industry. Discounting those basic plants which are, by all agreement, hopeless as economic producers, we then have to deal with the following:

Alumina plants:	
Hurricane Creek	$39,331,000
Baton Rouge	25,682,000
Reduction plants:	
Jones Mills	29,258,000
Los Angeles	24,042,000
Spokane	22,270,000
Reduction plants—Continued	
Massena	$19,031,000
Troutdale	18,898,000
Tacoma	6,309,000
Total	184,871,000

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With these plants disposed of properly and a competitive basic industry established, the values of the subsequent-stage plants are no longer in a field dependent on one major source of supply. Their values can then be independently established.

The admirable conduction of these hearings on the part of the chairman and the unlimited assistance afforded him by his extremely capable fact-finding cohorts have elicited from all of the witnesses practically all of the facts, figures, and information relative to this grave problem. The records are established. A review now, even in part, would be out of order.

However, it must be made crystal clear at this point whether Alcoa intends embarking on an extremely cooperative program in order to establish competition or whether Alcoa will choose to sit back, hamper the reconversion program, and await the impact of court dissolution which will be inevitable, based upon the findings of this body, Alcoa failing to do the right thing.

ASKS THAT ALCOA ENGAGE IN COOPERATIVE PROGRAM

Alcoa has, in the past, broken the law. The court has held it was by design. Let us now have design on the part of Alcoa for creating competition. Her greatest contribution in this direction would be the dissemination of complete know-how, not the kind that you read in books, but the fine know-how, the little kind that makes the big difference.

An integration committee could be formed, headed by Alcoa, with operators of alumina and reduction plants all as members. No anti-trust thoughts could be entertained since only technical information would be considered—not prices. There is much precedent for this type of action both in the aluminum field and in other major industries.

Alcoa, when it wanted to be, has been able to be extremely helpful to competitors. Such help only resulted in helping everybody. Undoubtedly, too, in time members of the committee, through their own gained knowledge, could give aid to Alcoa.

If this were done I would hope that the Attorney General's office would consider not asking for Alcoa's dissolution. I for one, should dislike very much seeing such an event take place. This company, headed by an excellent group of men, can contribute much to our general welfare.

I do not believe, on the other hand, that had there been competition in this field in the past 25 years we would have seen far more scientific improvements, a very much larger industry, a great deal more for the people, and no light-metals problem at this time.

I hope these men, leaders in industry, not only see the light, but more than that—carry the torch. If Alcoa welcomes competition as they say they do, this, then, is their opportunity to put that into concrete shape. Under no circumstances must the growth of the industry be allowed to be retarded. This might be placed in the nature of a plea that the course of action they elect to choose does not permit of their past errors. This is not just a plea of small business, this is a plea of big business as well, since all business has a great deal at stake in Alcoa's answers.

The time for action, however, is now, today, since the major hope for the ultimate success of these plants is that these operations receive the

benefits of a reconverting economy and its accompanying growing demand.

Alcoa has evidenced her willingness to purchase alumina from an operator of Hurricane Creek if the prices were competitive. Alcoa has also indicated her willingness to maintain the operations in most of these plants temporarily until new operators can be arranged for. This is the spirit by which much will be accomplished. Alcoa should continue on this track and not decry the Government's honest efforts to establish competition in the aluminum business. Alcoa should accept the long view and recognize its value to our entire economy.

SHOULD BE FOUR TO SIX BASIC PRODUCERS

Further, I think it should be firmly recognized by the Congress that there should be a minimum of four basic producers, six if possible, since there you have a broad base upon which to build. This should be made a part of the directive formula on the part of Congress to Mr. Symington. I tentatively base these figures on the number of plants in existence, their geographical location, and their sphere of influence. A duopoly, because of the protection afforded it, by not being a monopoly, may in effect be worse than the monopoly. This should be guarded against.

STRONGLY OPPOSES SUBSIDIES, BUT ADVOCATES GOVERNMENT AID

The question of subsidies has arisen many times at this hearing. My understanding of a subsidy is "payments of moneys to create a desired effect or to obtain something on the part of government which, generally, only benefits a few." In my own testimony before the Senate committee hearings I very strongly urged against subsidies. I cannot see, though, where any sensible program of aid to a producer in order to establish him in this field of no competition can be called a subsidy.

Even if there were money spent in this direction, creation of competition in the aluminum industry might eventually result in a price reduction of as much as 2 cents a pound; without this competition we might conceivably see an increase of 1 or 2 cents a pound. If our judgment proves correct and the American public saves on a 1,000,000,000-pound production 2 cents a pound, an absolute minimum of $20,000,000 a year would be saved, not taking into consideration additional savings due to smaller profits on lesser cost basic materials on the part of producers, retailers, and so forth. Competition in a rapid expansion program as established at the beginning of this war would have saved this Government $300,000,000 in their plant-building program.

What, if we do not have competition by the next emergency, will it cost for our next hurdle? Wherein does subsidy lie if in the net result more is gotten out than put in? If we had never given mail contracts to our commercial air lines years ago, which was in the nature of a so-called subsidy, where today would we get the great commercial fleets from which we, the American people, are gaining so much?

I am taking this viewpoint as an American, as a taxpayer, not as an aluminum manufacturer seeking personal advantage. What that aid, incentive, subsidy, or whatever you call it, consists of is the important

thing, not the word itself. What consists of obtaining greatest value for the Government? In most cases in the plants under discussion if you attempted to sell them on the open market as such to all comers except Alcoa, the offers you would find would not be very flattering. The next step then is to hold them at an exorbitant maintenance cost which in effect is till then, subsidizing the war effort, since the war no longer exists. Let us proceed then to what might be construed as a reasonable aid on the part of the Government.

I do not believe that an operator of any of these reduction plants should be guaranteed against any loss, nor should the Government share in the profits. Don't keep Government in business as such. I feel that the plants should be carefully considered and a fine analysis of cost should be established. Establishing then, the cost of its operations—based on proposed costs—the economic feasibility is immediately established for a given volume. That information should be divulged to the RFC at the time the proposal would be made on the part of the prospect. The information should be of a secret nature. There we have a starting point. The only question that then remains is how to obtain the volume of production.

GUARANTEED OUTLET NECESSARY FOR A PART OF PLANT CAPACITY

For the beginning of its operations the plant would require a guaranteed outlet for at least a part of its capacity. In my own estimation a "50 percent of production" Government order for the Army-Navy Munitions Board stock pile would serve the purpose. The remaining 50 percent must be manufactured at the operator's risk and disposed of on the open market. Stock piling is no subsidy. It is a matter of value received.

Operating capital should be supplied on the part of the entrepreneur. If his credit enables a loan at a bank, that of course does not preclude him from applying for a loan at the RFC which could be made on a basis of sound banking principles.

STOCK-PILING ESTIMATES

Senator O'MAHONEY. How far do you think stock piling could go?

Mr. TROY. Well, I have seen estimates as high as a billion and a half to two billion pounds.

Senator O'MAHONEY. How long would it take to stock pile that amount?

Mr. TROY. I was thinking in terms of 300,000,000 or 500,000,000 pounds a year, maybe over a period of 4 or 5 years.

Senator O'MAHONEY. In 5 years that amount would have been obtained?

Mr. TROY. Yes, sir.

Senator O'MAHONEY. And purchased by the Government. Then, what would be the question that would confront the Government?

Mr. TROY. I think, sir, by that time the market would have been established that would enable individual competition of Alcoa to obtain its own markets, and if it could not by that time, then something is drastically wrong with our entire system.

Senator O'MAHONEY. Within that period you think that new and broader markets could be developed?

Mr. TROY. That I think has been brought out very adequately in all this testimony. In my own opinion, sir, I think it has been substantiated by practically everybody in the business, including Alcoa.

The loan of operating capital as such should not be considered as part of a contract to buy or lease any plant unless the individual can command the loan on his own power. Terms of course should be as liberal as possible.

PLANTS SHOULD BE LOCATED WHERE PEOPLE ARE PERMANENTLY ESTABLISHED

I once heard Senator Wherry, of Nebraska, remark that the work should be brought to the people, not the people to the work—meaning of course that plants should be established where there are people not causing continual dislocations.

I have just returned from a cut-short visit of inspection and engineering study of the Los Angeles reduction and extrusion plants. The people of Los Angeles are very anxious to have their local productive capacities put to use. Their eyes are focused in this direction. The thing that struck me as being most singular was that in a part of the country, where 50 percent of the country's planes were built, there was not a sheet mill. Yet during the war, a 288,000,000-pound sheet mill was constructed at Spokane.

In my analysis of the situation, I found that the Southwest was ripe for an integrated industry in the aluminum field, and that a goal like that was not unobtainable in the near future if the start were afforded through the obtaining of these plants at this time. The establishment of a local bauxite plant would be an immediate plan followed by the setting up of a sheet mill meeting the local requisites. This goal, while it would not permit any immediate withdrawal of profits for years to come, would accomplish the sincere desire on our part to benefit not only ourselves but the people. Our interests would be protected on a sound down-to-earth basis and our profits would then accrue.

In considering the Los Angeles project it would be well for the committee to dwell on the Boulder Dam power arrangement of costs to the city of Los Angeles as compared with that of Coulee-Bonneville. It is my understanding that almost 50 percent of the costs of Coulee-Bonneville Dams have been charged off against items like flood control, and so forth, allowing a low power rate whereas at Boulder only 18 percent has been so charged, causing a higher rate. Added to this, of course, is a 300-mile span of power being carried to its outlet. Why should such a power differential exist? Immediate steps should be taken toward its correction even though no immediate action is taken on the over-all power problem.

WOULD LIKE A 5-YEAR LEASE WITH THE GOVERNMENT WITH OPTION TO BUY

What we would like to see on a basis of purchase would be a 5-year lease with the Government with an option to buy. The value of the plant is to be mutally agreed on by the RFC and the prospective purchaser. The leasing arrangement would virtually be a part of the purchase action. The lease payments would be based on a "so much per pound sold arrangement" which would apply toward the purchase price.

For instance, if there were 100,000,000 pounds of aluminum produced annually in the plant, then a half cent would yield a return to the Government of about $500,000 per annum. Since, purportedly, these would be the best terms that the Government could get (outside of Alcoa) for these plants, they would, in effect, create a sale to the highest bidder. There is no subsidy involved. Of course the economic value should be the determining value of such plants.

ECONOMIC VALUE MUST BE DETERMINED

Incidentally, in physically inspecting the extrusion plant at Los Angeles it was discovered that a million-dollar air-conditioning unit had been installed. This unit, during all the time of the plant's operation, was never used. It probably never will be used; its value is nil.

The reduction plant supposedly has carbon-rod-making facilities that are 50 percent greater than its own needs. Los Angeles was to have supplied Riverbank with their carbons. Both these plants have black-out lighting, and the cost of inserting windows is also a consideration.

These are only some of the factors that must be taken into consideration when determining economic value. I bring these to your attention so that the $178,000,000 figure represents only what these plants cost the Government and is nowhere near their true worth. In further consideration of these plants it should be pointed out that all records and figures pertaining to the plants' past operations should remain with the plants. In both of these plants they had been removed by the operating companies.

The purchase of the main constituent of the basic aluminum, namely, alumina, according to the Surplus Property Board, would run around $28 to $30 per ton out of Hurricane Creek. The arrangement for the purchase of this material would constitute only an immediate aid with us only until such time as a bauxite plant could be established at Tidewater in Los Angeles to handle imported ores from the Orient.

We would also like to suggest that it would be a recoverable cost to take part of Baton Rouge and move it out to the west coast at this time in order to put to use a plant which otherwise may not have any use. We want to state that it would not be our intention of entering competing fields where small business has its greatest opportunity, but rather promote new small companies into them.

RECOMMENDATIONS FOR CONGRESSIONAL FORMULA

Upon the completion of our inspection and analysis of the plants on the west coast and upon the formation of a definitive policy on the part of the Congress so that the Surplus Property Board, through its agent, the RFC, knows exactly what is acceptable and what isn't, we will make our formal, specific offer for these plants.

The RFC and in-sight prospective purchasers should sit down and the prospective customers should make known what they would like to see in that formula. Those recommendations should be studied as possibly being a part of Congress' formula. We sincerely trust that the formula as will then be laid down by the Congress will be progressive and will meet the demands of the situation. In any event, it should be an over-all plant and all comers should be treated similarly.

The plan and the way it is working out could be looked at in retrospect by the Congress and adjustments made if needs be.

In conclusion, let me say that we have found that in the past we have manufactured many items which Alcoa and Reynolds said couldn't be made; that by this token, through competition, Alcoa and Reynolds may learn much. A joining of hands is necessary.

(Information supplied by Mr. B. Cozzens, city of Los Angeles, department of water and power.)

Allocation of costs, Boulder project versus Bonneville-Coulee project (excluding transmission system facilities)

	To present			
	Boulder, Jan. 1, 1945		Bonneville-Coulee, June 30, 1944	
	Amount	Percent total	Amount	Percent total
Power	$115,047,516	82.1	$85,336,824	32.4
Joint power			62,042,660	23.6
Joint other			107,803,976	41.0
Flood control	25,000,000	17.9		
Irrigation			7,785,445	3.0
Total	140,047,516	100.0	262,968,905	100.0
Total power (including joint facilities allocated to power)	115,047,516	82.1	147,379,481	56.0

Allocation of costs, Boulder project versus Bonneville project

Cost allocated to—	To present			
	Boulder, Jan. 1, 1945		Bonneville, June 30, 1944	
	Amount	Percent total	Amount	Percent total
Power	$115,047,516	82.1	$37,681,600	45.0
Joint power			20,121,850	24.0
Joint other			20,121,850	24.0
Flood control	25,000,000	17.9		
Navigation			5,784,000	7.0
Total	140,047,516	100.0	83,709,300	100.0
Total power (including joint facilities allocated to power)	115,047,516	82.1	57,803,450	69.0
	Ultimate			
	Boulder		Bonneville	
	Amount	Percent total	Amount	Percent total
Power	$125,000,000	83.3	$38,340,300	44.8
Joint power			20,368,050	23.8
Joint other			20,368,050	23.8
Flood control	25,000,000	16.7		
Navigation			6,534,500	7.6
Total	150,000,000	100.0	85,610,900	100.0
Total power (including joint facilities allocated to power)	125,000,000	83.3	58,708,350	68.6

NOTE.—Figures for Boulder were obtained from Interior Department appropriation bill, 1944, and apparently cover all costs incurred, however, no specific mention is made of interest during construction period. Figures for Bonneville were obtained from a report made by the Bonneville chief engineer to the Federal Power Commission and specifically include interest during construction period.

TYPE OF COMMODITIES MANUFACTURED

Senator O'MAHONEY. What type of commodities do you refer?

Mr. TROY. In the fabricating end of the aluminum industry.

Senator O'MAHONEY. For example?

Mr. TROY. Well, there was a highly strategic part made out of sheet for heavy artillery that placed in a position of prime importance at a time when we were short of fuse box cups, and up to that time they had been made out of bakelite. Since the shells were in the field and had to be changed to aluminum, it became necessary to change some bakelite to aluminum and use the same dimensions. The Aluminum Co. of America said it just could not be done, according to the blueprints as they existed. Reynolds did the same. Based on that, it would have necessitated scrapping millions of dollars worth of shells.

We undertook the problem and were successful. We turned out in the nature of 20,000,000 of these cups in the space of time of 6 months. I daresay there was a time when every loading line in the country was dependent on our company for the production of these units, to the end that we were the sole source of supply.

Senator O'MAHONEY. Ah! You are a monopoly.

Mr. TROY. Alcoa did not come to us and ask us for the information, so to that extent we are.

We were the sole source of supply for this highly strategic product. I might say that at the time of the Bulge last November, it was through our Herculean efforts that we kept our loading lines going, and in effect we did a great deal for our country in that respect.

Senator O'MAHONEY. Thank you very much. Are there any questions?

Mr. TROY. I just wanted to make one other point, Senator, if I may, and that is with reference to the subsidies discussed on the part of Senator Wherry. The precedent I have reference to is the Silver Act of 1934 which establishes a price of .711 for silver which might be purchased outside of the country at a lower price.

Senator O'MAHONEY. Well, we won't go into the silver question here.

Mr. Gallagher.

STATEMENT OF J. O. GALLAGHER, PRESIDENT, COLUMBIA METALS CORP., SEATTLE

Mr. GALLAGHER. Mr. Chairman, the name is J. O. Gallagher, president of Columbia Metals Corp., Seattle, Wash.

I would like to say that the filing of this proposal, which was just done on Monday was merely coincidental with the beginning of these hearings. We have been in negotiation with the RFC now for almost a year, our original approach to this matter being one of taking over the operations of two reduction plants, Troutdale and Spokane, having in mind that if we were able to get into the operation of those two plants during the war we would thereby have an opportunity to develop an organization and be prepared to carry on with the program which we are now proposing to carry out.

Of course, with the advent of VJ-day, that approach became obsolete, and we immediately proceeded to prepare a proposal which would be in line with the new circumstances.

Our first conclusion in making our new approach to this matter was that it was one requiring not less than $20,000,000 of working capital, and that if any prospective bidder for these plants was not prepared to supply such an amount of working capital, he would automatically disqualify himself.

This is not one of those conventional deals which is the normal way of getting into business, one of creeping before you crawl and crawling before you walk. This is one where you are just going to have to jump in and sink or swim and take your chances.

We are not asking for any guarantee against losses, nor are we asking for a subsidy. There are many definitions, I find, of a subsidy.

As has been indicated here, we have suggested that the RFC buy a certain portion of our output. What portion is very difficult to determine, but we do not believe that that is a subsidy. We don't believe in subsidies, and we prefer not to have any part of them.

COLUMBIA METALS CORP. STOCKHOLDERS

Just a word about the Columbia Metals Corp. I am sure that while the RFC boys are quite familiar with our set-up, for the benefit of the record here it is made up of less than 50 stockholders and will continue to be, certainly during the first few years of this initial venture period. Those stockholders are men who have been outstandingly successful in their respective lines of business, including shipbuilding, aircraft building, banking, lumber, fish, grain, oil, and steel. They are all men of not only ordinary prudence but extraordinary prudence, and they are all fully aware of the many obstalces and difficulties in connection with getting into the aluminum business. We have made very exhaustive studies, engineering, commercial, and otherwise, of the situation, and we feel that we have the opportunity fairly well appraised.

Senator O'MAHONEY. Do you have a list of the stockholders?

Mr. GALLAGHER. Yes. The RFC, Mr. Chairman, has a list of our stockholders. We have been working with them now for the past several years, being the sponsor for the sale of alumina from the clay plants.

Senator O'MAHONEY. How long is the list?

Mr. GALLAGHER. There are less than 50. As a matter of fact, I think there are less than 30 right now, and there will continue to be less than 50.

Senator O'MAHONEY. Would you be good enough to put them in the record at the conclusion of your statement?

Mr. GALLAGHER. I would be glad to supply that to the committee.

During this hearing there have been a lot of things said about what was done during the war as to subsidies, and so forth. As a matter of fact, Mr. Chairman, it seems to me that the Government of this country subsidized the world in this war in order to win, and anything said about subsidies during the war seems to me rather beside the point.

We are now faced with a problem, in this aluminum situation, not of reconversion but of conversion. The Government was not in the aluminum business before the war. It now finds itself very much in

the aluminum business, and now it would like to get out of the aluminum business.

We propose a plan whereby we will not put the Government in the active business of making aluminum, but to the contrary to take them out of the aluminum business.

REDUCTION STAGE IS HEART OF ALUMINUM BUSINESS

Before I read my proposal here, which I plan to do, I think it would be well for us to have in mind what we are talking about. The heart of the aluminum business is the reduction end of the business. That is, I would say, the center or the heart, with alumina the principal artery on the one hand and your present fabricating facilities, your principal artery on the other hand.

At the present time, there are economical facilities for reducing aluminum, both Government and private, having a total capacity of 1,560,000,000 pounds. Of that amount, Alcoa has 830,000,000 pounds; Reynolds Metals Co. has 170,000,000 pounds, and the Government has about 512,000,000 pounds, or as a matter of fact 560,000,000 pounds, and I am including in that the Tacoma plant which I think has possibilities of operating economically.

I offer this gratuitously, and probably it will not be appreciated by Reynolds, but it has struck me that since the Tacoma plant uses the same process, the so-called Soderberg process, as their own Longview plant uses, it might fit into that operation for them, thereby reducing their overhead.

In any event, the reduction stage of the aluminum business being the heart of the business, that is the stage of the business around which any integrated operation must be built. The size of your operation on the one hand for your raw materials and your prefabricating on the other will depend upon the extent to which you operate your reduction facilities.

INTEGRATED SET-UP NECESSARY

We have approached this entirely from the standpoint of being local interests in the Pacific Northwest. We have two reduction plants out there besides the Tacoma plant, which we could not at this time, without being presumptuous, include in our proposal anyway because we understood the Olin Corp. had prior consideration there.

The two plants have a capacity of 360,000,000 pounds, that is, at Troutdale and Spokane. In order to operate those plants successfully, you must have a controlled source of supply of alumina on the one hand, and then on the other hand a controlled outlet in the form of prefabricating facilities. We have therefore included in our offer what we consider to be the minimum of reduction and prefabricating facilities and alumina facilities for a successful operation.

If Troutdale or Spokane is leased or otherwise disposed of to other prospective bidders, then the Columbia Metals program falls entirely short of its objective, and the whole situation becomes of no interest to us.

Senator O'MAHONEY. When you speak of a controlled outlet, in what sense do you use the word "controlled"?

Mr. GALLAGHER. I mean having the operations of your prefabricating facilities under your own management; otherwise, you would be dependent upon others for an outlet for your pig aluminum.

Mr. Chairman, very little pig aluminum is sold as such. It must be fabricated into sheet, rolled, rod and bar, and so forth, in order to really be in business. On the other hand, you must have the alumina with which to make the aluminum. That is the reason that we, although we are local interests, have ostensively reached down into Arkansas and have proposed to take over the Hurricane Creek alumina plant which is, of course, vital in any integral vertical operation.

Senator O'MAHONEY. Then, it is your opinion that in the aluminum industry it is necessary to have such an integrated set-up if it is to be successfully carried on. That is to say, you must have your supply of alumina, and you must have your opportunity to turn out the sheets, rods, and so forth?

Mr. GALLAGHER. Exactly. In order to expect to be able to compete successfully. Going even further than that, Mr. Chairman, you must have a source of supply of bauxite. Fortunately, for at least a temporary period of time, bauxite can be made available from the RFC's stock pile of bauxite in Arkansas.

Senator O'MAHONEY. You do not conceive of the industry being capable of being equally divided into alumina production, aluminum production, and fabrication?

Mr. GALLAGHER. Not with resulting efficiency.

COLUMBIA METALS CORP. PROPOSAL

This is our proposal, dated October 10:

Mr. SAM H. HUSBANDS,
Director, Reconstruction Finance Corporation,
Washington 25, D. C.

DEAR MR. HUSBANDS: This will acknowledge and thank you for your letter of September 13, 1945, in which you advise that the existing leases of the Aluminum Co. of America have been canceled, effective October 31, 1945, and that you are now in a position to negotiate for the disposition of the Government-owned aluminum facilities.

In view of these circumstances and in view of the termination of the war meanwhile, we would like to modify our offer submitted under date of May 10, 1945.

With reference to that offer, as was stated by Mr. Husbands the other day, one of the conditions was that RFC would make alumina available to us, which was a natural condition in view of the fact we were only proposing to operate the two reduction plants and the only source of alumina being Hurricane Creek under the management of Alcoa we, naturally, would have to have an assured supply of alumina. We felt that under the circumstances, Alcoa being a lessee of the RFC, that such arrangements were not unreasonable to be expected.

Assuming that the Reconstruction Finance Corporation, as a matter of policy in the interest of national defense and in pursuance of recommendation of the Army and Navy Munitions Boards, will be authorized to purchase for stock pile certain strategic materials including aluminum and magnesium and that access to such purchases will be available for a limited period of time for a portion of the virgin metal produced, Columbia Metals Corp., hereinafter called Columbia

Metals, hereby offers to lease the Hurrican Creek alumina plant, Troutdale and Mead reduction plants, Trentwood rolling mill, Phoenix Extrusion plant, Newark (Ohio) rolled, rod and bar plant, and the Spokane magnesium plant, all owned by the Reconstruction Finance Corporation, hereinafter called RFC, upon the following conditions:

As I have said before, Mr. Chairman, we have concluded that that is the minimum of aluminum facilities now owned by the Government with which a new operator can hope to be successful in a vertical operation. That is briefly the explanation of the reason for our having included those particular facilities, including the magnesium plant.

As you no doubt know, in the alloying of aluminum, some 6 to 10 percent of magnesium is required. We feel that we can fit that Spokane magnesium plant into our operation very nicely with some modifications and some technological changes so that it will be a source of supply of our necessary magnesium alloy.

ALUMINA-FROM-CLAY PROCESS PLANT AT SALEM, OREG.

Senator O'MAHONEY. You haven't said anything about the experimental clay plant which Columbia operates at Salem, Oreg.?

Mr. GALLAGHER. I mention that in here, Mr. Chairman. I will be glad to tell you what the status of that is, if you are interested.

Senator O'MAHONEY. I think it would be a very good addition to the record.

Mr. GALLAGHER. At the present time we would be making alumina there had we been able to obtain the necessary ammonium sulfate, without which, of course, we cannot operate. All ammonium sulfate has been allocated for fertilizer requirements, but we were able, with VJ-day to obtain anhydrous ammonia and sulfuric acid, and we are now in the process of making our own ammonium sulfate, which will require a matter of 60 to 90 days to make enough to charge the system.

We are also giving some consideration, at the suggestion of some of our agricultural friends out there, to the idea of operating the plant properly for the production of ammonium sulfate and for the production of alumina, in order to relieve the rather tight situation on fertilizer in that particular area.

Senator O'MAHONEY. If the system is supplied with this ammonium sulfate, will you then be able to produce alumina on a commercial basis?

Mr. GALLAGHER. Oh, yes, and by slowing up the production of alumina, we can make ammonium sulfate simultaneously with making alumina.

Senator O'MAHONEY. Then, by this process with which you have been experimenting, you believe it is possible to use these western clays to produce alumina in competition with bauxite?

Mr. GALLAGHER. Mr. Chairman, that is the purpose of the project, to determine the feasibility of that. Until that has been done, we cannot say whether or not that process will prove commercially feasible.

Senator O'MAHONEY. How far are you from a determination?

Mr. GALLAGHER. I would say probably about 8 months from a determination. We probably will begin making alumina around the

first of the year, and 6 months' operation will be required to work out the economics of the operation.

Senator O'MAHONEY. What is the clay that you use in that operation?

Mr. GALLAGHER. This particular clay comes from Cowlitz County in southwestern Washington. It is a plastic clay, not exactly a kaolin, but approximately a kaolin. It has an average content of Al_2O_3 of around 35 to 37 percent, and with from 4 to 7 percent iron.

Senator O'MAHONEY. How much of it is available?

Mr. GALLAGHER. The Bureau of Mines explored it, blocked it out, and, I believe, reported something in the neighborhood of 13 to 15 million tons definitely. There undoubtedly is a substantial additional quantity.

Senator O'MAHONEY. Is there any reason to believe that there are adequate sources of alumina clay in the United States to manufacture adequate supplies of alumina provided that these experimental plants show that it is commercially possible?

Mr. GALLAGHER. Yes, Mr. Chairman. I would say it is practically unlimited.

Senator O'MAHONEY. There is an unlimited supply of alumina clay and alumina ores?

Mr. GALLAGHER. Yes.

CONDITIONS OF PROPOSAL

The conditions are as follows:

1. *Working capital.*—Columbia Metals will provide the working capital, estimated at $20,000,000, details for providing such working capital to be subject to the approval and satisfaction of RFC before executing lease. A portion of the working capital may be obtained through Government loans.

I would like to explain, Mr. Chairman, that we have no expectation or intention of using any Government money for working capital, but we included that sentence in that paragraph in the interest of preserving the integrity of our position in the event that for some reason along the line we may wish to do business with the RFC or some other Government agency.

2. *Management.*—Columbia Metals will assume entire responsibility for management, such management and plan of operations to be subject to the approval and satisfaction of RFC before executing lease.

3. *Term of lease.*—The term of lease shall be for a period of 5 years.

CANCELLATION CLAUSE

4. *Cancellation.*—After 1 year either party shall have the right to cancel this lease upon 90 days' written notice. In the event of cancellation by RFC, inventories and materials in process shall be purchased by RFC at cost.

That is a very important provision, Mr. Chairman. Ninety days is a very short time, but we can comply with that in view of the fact that we are asking RFC to take our inventories and materials in process off our hands at cost in the event of cancellation by them, but that provision will have to be very carefully drawn, not necessarily for our own protection or for the protection of the Government but rather for the effect that it will have in the industry in its appraisal of our likelihood of remaining permanently in the aluminum industry.

Both the Government and ourselves obviously will desire to be protected with respect to cancellation privileges, but I wish to point out at this time that that provision will have to be surrounded with certain protective provisions so as not to give the industry generally—after all, we are just perhaps going to be in and out——

Mr. GOLDSCHMIDT (interposing). Isn't that, in effect, what was done by Alcoa, the Government and Alcoa, in connection with the present shut-down of the plant?

Mr. GALLAGHER. Yes.

Mr. GOLDSCHMIDT. The Government took the inventory?

Mr. GALLAGHER. Yes. The inventory and materials in process, as a matter of fact, are pretty much a part of the plant, just as the equipment is, and if for any reason the RFC sought to cancel our lease, undoubtedly they would have in mind substituting another operator who would naturally be interested in picking up the operation along with the inventory and materials in process, anyway.

CONTINUATION OF CONDITIONS OF PROPOSAL

5. *Rental.*—The rental shall be computed upon actual production of products ready for shipment, as follows:

Alumina	per ton	$2.00
Pig aluminum	per pound	.005
Plate and sheet aluminum	do	.01
Rolled, rod and bar	do	.01
Extrusions, tube blooms and tubing	do	.015
Pig magnesium	do	.0075

Those figures have been adopted by predicating the estimated return to the Government upon a reasonable valuation of these plants. For instance, in the case of the Spokane reduction plant with capacity of about 216,000,000 pounds at a cost of $22,000,000, we estimated that a reasonable value of that plant would not be in excess of $15,000,000. At full capacity, 216,000,000 pounds at one-half cent per pound, rental would result in $1,080,000, which would be between 7 and 8 percent on a valuation of $15,000,000.

The same theoretical formula was applied in all of these plants.

On Hurricane Creek alumina plant, we assumed an arbitrary value. $2 per ton would return a reasonable rental for the Hurricane Creek plant.

Settlement of rentals will be made within 30 days after the end of each fiscal year of Columbia Metals or upon termination of the lease, provided that rentals shall be waived to the extent that payment thereof would result in an operating loss on these plants to Columbia Metals after ordinary maintenance, taxes other than income taxes, insurance, and after financial, selling, general, and administrative expenses.

In other words, after all expenses, the theory being there that the Government has the plants, we are proposing a cash-in and cash-out basis. No cash will be paid unless we make it. If we make the rental, then we will pay it.

By the same token, if we lose money, we are not asking the Government to make up any of our losses.

6. *Bauxite.*—RFC shall make available from its Arkansas stock pile a supply of bauxite for the operation of the Hurricane Creek alumina plant at a price comparable with Dutch Guiana bauxite delivered at Mobile, Ala., with proper adjustments for excess silica and low alumina content.

7. *Alumina.*—Columbia Metals will agree to manage alone, or to join with another or other lessees in the management of the Hurricane Creek alumina plant, alumina to be billed to Government-owned reduction-plant lessees at cost plus 5 percent.

8. *Power.*—Columbia Metals will negotiate for and purchase power.

There has been a great deal said, Mr. Chairman, about the power problem, and it is a very important problem. We have appraised that situation, and we believe that we will be able to negotiate satisfactory power contracts with the Bonneville Power Administration.

In any event, the acceptance of our proposal or our offer is not in any way contingent upon the RFC or anyone other than ourselves making our own power arrangements.

9. *Reopening, relocating, altering, and improving plants.*—RFC will agree to pay the costs of reopening, relocating, altering, and improving plant facilities. RFC will also agree to make certain relocations, alterations, improvements, and betterments as recommended by Columbia Metals from time to time and as mutually agreed upon.

10. *Purchase of pig aluminum and magnesium.*—RFC will agree to purchase, at a price to be mutually agreed upon, but in no event higher than the present market price, pig aluminum and magnesium to the extent of the difference between actual production and commercial sales.

That is a very controversial point. It cannot be considered without considering the whole offer, so I would like to come back to that, Mr. Chairman, after I have finished.

Senator O'MAHONEY. What would be the measure of production?

Mr. GALLAGHER. I am coming to that in the next paragraph.

11. *Rate of operation.*—It shall be agreed that reduction plants will be operated at a minimum rate of 50 percent of capacity within 6 months after taking possession under the lease. Reduction plants may operate in excess of 50 percent of capacity, provided Columbia Metals sells commercially not less than 50 percent of actual production. Hurricane Creek will be operated at a rate necessary to supply these and other Government-owned reduction plants plus any commercial sales that may be developed. Prefabricating plants will operate at a rate necessary to meet commercial sales requirements but, in any event, Columbia Metals will agree to have them operating at not less than 50 percent of capacity within 12 months after taking possession.

12. *Equalization of transportation charges.*—During the life of this lease or until such time as the Phoenix plant has been economically relocated, RFC will allow as a deduction from total rentals payable, the cost of equalizing with competitive shipping points the transportation charges on shipments from Phoenix.

13. *Option to purchase plants and facilities.*—Columbia Metals shall have an option to purchase any or all of the aforementioned plants (including an alumina plant if established in the Pacific Northwest and the Salem alumina-from-clay plant now being completed), at any time prior to 6 months before the expiration of this lease agreement. The price to be paid for the plants shall be determined by a board of seven appraisers, three to be chosen by RFC, three by Columbia Metals, and those six shall choose the seventh. The average of prices prevailing, with labor figured at straight time, from 1920 to 1939, inclusive, shall be used. Values shall be weighted with factors representing (*a*) the best known record of operating efficiency up to the present time, (*b*) the degree of obsolescence and actual depreciation rather than calculated depreciation, (*c*) the difference between uneconomically located and economically located plants. Replacement cost shall be determined as of the date of completion or of beginning of initial operations (whichever date was the earlier) of each plant, and depreciation at an accelerated rate to be determinel by the board of appraisers from such date to the date Columbia Metals takes possession under this lease and two-thirds percent per month from the latter date to the date Columbia Metals takes title, shall be deducted. Interest at the rate of 2 percent per annum on the total purchase price shall accrue from the date of taking title.

In the event Columbia Metals elects to exercise this option to purchase, Columbia Metals will so notify RFC, depositing at the same time in escrow $5,000,000,

whereupon appraisers shall be selected and the appraisal ordered to proceed. Upon completion of appraisal and delivery of good and sufficient titles, escrow agent will pay over to RFC the said $5,000,000, which will be applied upon the purchase price. Thereafter, within 120 days after the end of each fiscal year of Columbia Metals, Columbia Metals will pay one-third of its previous year's net profits, after provision for all Federal and State taxes, or $1,000,000, whichever is the greater, upon the remainder of the purchase price, to be applied first to interest and the balance to principal. Standard accounting practices shall be used when computing net profits, and depreciation at the average rate of two-thirds of 1 percent per month on all plants and equipment shall be allowed.

14. *Other Government-owned facilities.*—The leasing of any plants pursuant to this offer shall not prejudice the right of Columbia Metals at any future time to lease additional Government-owned aluminum facilities, including, but not limited to, those located at Cannonsburg, Pa., Newcastle, Pa., Monroe, Mich., Cressona, Pa., Chicago, Ill., Jones Mills, Ark., Tacoma, Wash., Riverside and Los Angeles, Calif., Massena and Maspeth, N. Y., Burlington, N. J., and Baton Rouge, La.

I might say, in reference to that last paragraph, that there are certain other facilities, forging and rolling facilities, that may logically be included at this time, but we would prefer to have an opportunity to appraise that situation before we make any definite proposal.

Senator O'MAHONEY. This letter to Mr. Husbands is dated October 10. When was it delivered to him?

Mr. GALLAGHER. Not until Monday, the 15th. It had to go to Seattle, Mr. Chairman, for the approval of my people before filing, and the approval was delayed a day or two longer than I had anticipated.

Senator O'MAHONEY. So it is now before the RFC?

Mr. GALLAGHER. Yes.

Senator O'MAHONEY. Are there any questions?

Is there anything more you desire to say?

COMMERCIAL OUTLET MUST BE DEVELOPED

Mr. GALLAGHER. Yes, Mr. Chairman; I would like to clear up this matter about the purchasing of metal. We do not propose to sell any metal to the Government at a profit. Any metal that we would sell would be sold without profit to ourselves. We are agreeing to get these plants into operation at a rate of not less than 50 percent of capacity within 6 months, and they will not operate in excess of 50 percent of capacity unless we sell at cost 50 percent of the production commercially.

There is no way in which the Columbia Metals Corp. can make any money out of this operation unless it develops its own commercial outlet. We would be under a constant incentive to avoid selling any metal to the Government.

At the same time, I do not believe that the Government will be able to interest anyone, other than perhaps Alcoa, in purchasing these facilities or leasing them, unless some provision is made for the purchase of the product.

Furthermore, we are proposing a 1-year trial here. After 1 year, either party—the RFC or ourselves—can cancel this arrangement upon 90 days' notice. Certainly if we have not developed a substantial volume of commercial business by the end of 1 year, both the RFC and ourselves will want to cancel this lease, and we probably will have to take a substantial loss. Of course, we don't intend that any such circumstances will develop. We don't intend to lose any substantial

amount of money. We are going to be prepared to lose it, but we don't expect to lose it.

At the same time, we don't expect to make any money out of the business that we do with the Government.

Senator O'MAHONEY. How long has this offer been in preparation?

Mr. GALLAGHER. This particular offer we began preparing immediately after VJ-day.

Senator O'MAHONEY. It was made, I assume, upon the basis of your engineering experience and your industrial experience?

Mr. GALLAGHER. Yes. We have been studying this situation, Mr. Chairman, for more than 4 years, and have been anticipating the very situation that we find ourselves in today.

Up until recently there was no one evidencing any interest in taking over these plants in the Pacific Northwest other than ourselves, that we had heard of. We formed Columbia Metals Corp. for the sole purpose of developing and establishing an integrated aluminum industry centering in the Pacific Northwest.

Senator O'MAHONEY. Have you computed the cost to the Government of the plants which are embraced in this offer?

Mr. GALLAGHER. Yes, sir. Their original cost is $201,000,000.

Senator O'MAHONEY. Do I understand that the compensation to the Government which you propose in this offer is to be found in the paragraph dealing with rentals?

Mr. GALLAGHER. Yes; paragraph 5.

Senator O'MAHONEY. You also, however, require the Government, through the RFC to purchase pig aluminum and magnesium in such amount as to make up the difference between your actual production and the commercial sales?

Mr. GALLAGHER. Yes.

RATE OF OPERATION

Senator O'MAHONEY. Let me ask you again, What would be the measure of production, and who would determine that measure of production?

Mr. GALLAGHER. The minimum of production as we propose would be 50 percent.

Senator O'MAHONEY. You agree to operate at not less than 50 percent of capacity?

Mr. GALLAGHER. Yes.

Senator O'MAHONEY. But who controls how much of the capacity you shall use, you or the Government?

Mr. GALLAGHER. Well, we, by agreement; the RFC and ourselves, agree that those plants will, within 6 months, be operating at not less than 50 percent of capacity. We don't think they can operate efficiently at any less than 50 percent.

Senator O'MAHONEY. I understand that, but if you should not develop commercial sales to take up the capacity production, or the percentage of capacity production in which you are engaged, the RFC would be obliged under this proposal to take that difference, would it not?

Mr. GALLAGHER. Exactly.

Senator O'MAHONEY. Therefore, it would be within your power, by your determination as to how much you would produce, to decide

how much the RFC would have to pay above the commercial sales?

Mr. GALLAGHER. I am not sure I follow you, Mr. Chairman.

Senator O'MAHONEY. If you can determine how much you will produce.

Mr. GALLAGHER. Yes; at 50 percent of capacity of those two plants, the figure of aluminum is 180,000,000 pounds per year.

Senator O'MAHONEY. That is your minimum?

Mr. GALLAGHER. That is the minimum; yes.

Senator O'MAHONEY. But you could produce at 100 percent?

Mr. GALLAGHER. Yes; but if we go above 50 percent, we will have to sell half of our total production. In other words, if we go up to 75 percent, we can only do that in the event that we sell 37½ percent commercially.

Senator O'MAHONEY. That is what I wanted to develop.

Mr. GALLAGHER. We would have to sell commercially 37.5 percent.

Senator O'MAHONEY. So that the amount which the Government would have to expend in the purchase of aluminum from you is governed in this contract?

Mr. GALLAGHER. Exactly.

ESTIMATES COST TO GOVERNMENT OF KEEPING PLANTS IDLE

I would like to point out, Mr. Chairman, that as to this so-called subsidy, I do not think it is a subsidy. I think I can successfully argue and debate that even with our good friend, Senator Wherry.

It strikes me as being just simple, good business on the part of RFC to make such an arrangement. They have some $700,000,000 in these facilities. It is costing them somewhere between $75,000,000 and $100,000,000 a year to do nothing with them, or at the rate of $250,000 or $300,000 a day. Every day those plants are idle, it is costing the Government around $250,000 or $300,000.

I do not anticipate that the Government will be called upon to purchase very much of our production, but assuming that it had to purchase a half of our production, which would be 90,000,000 pounds for the first year at an average cost of 12 cents per pound—that is approximately $10,000,000.

Senator O'MAHONEY. What is the source of your testimony here on the cost to the Government?

You have just made a statement as to how much it is costing the RFC to hold the plants.

Mr. GALLAGHER. That is just a very rough estimate, Mr. Chairman. If the Government has $700,000,000 in plant and you are going to say that there is a reasonable allowance of 10 percent for depreciation and interest on investment, you have $70,000,000 right there. There are certain additional charges of maintenance, guarding, and so forth, which are very difficult for anyone to estimate, but I should think it would be substantial.

Senator O'MAHONEY. That is your estimate?

Mr. GALLAGHER. Yes.

Senator O'MAHONEY. It is not an official estimate?

Mr. GALLAGHER. It is entirely my own estimate, yes.

If the Government, by spending 10 or 15 cents on the dollar of what it has invested in these plants can thereby rehabilitate those plants and put them in condition so there is no outgo in connection with them, no expense, but to the contrary an income, it seems to me that is just simple good business, and it strikes me that there should not be any special authority under the RFC statute to permit it to do that, the RFC being a tremendous banking and business concern, a tremendous landlord. As such, it is part of their operations to maintain their properties and to get the maximum return from those properties.

I believe that is the extent of what I have to offer, Mr. Chairman.

Senator McCLELLAN. Mr. Chairman, I got in late and did not hear all that the proposal covered. Someone has suggested to me that Jones Mills was not included in your proposal; is that correct?

Mr. GALLAGHER. That is true, Senator McClellan, and it is not necessarily because we are not interested in Jones Mills.

Senator McCLELLAN. I just want for my own information at the moment to verify the fact that you are making no proposal involving Jones Mills, but your proposal does involve Hurricane Creek?

Mr. GALLAGHER. That is right, and we will be glad to include Jones Mills if it is not otherwise disposed of. We had understood that others were interested in Jones Mills, and being a Pacific Northwest group, and predicating our whole program on local interests, local capital, and so forth, we felt we would be stepping a bit out of character to reach way down into Arkansas to take a reduction plant.

Senator McCLELLAN. The Jones Mills operations would be able to get its supply of alumina from you?

Mr. GALLAGHER. Of course, in this proposal, we propose to take over the Hurricane Creek plant and agree to supply operators of other Government-owned reduction plants at cost plus 5 percent.

Senator O'MAHONEY. Are there any other questions to be addressed to Mr. Gallagher?

Mr. HARVEY. May I ask one question, sir?

Senator O'MAHONEY. Mr. Harvey.

Mr. HARVEY. What was the offer you made on the bar? You made some offer on bar stock, to pay so many cents?

Mr. GALLAGHER. You mean the rental?

Mr. HARVEY. Yes.

Mr. GALLAGHER. One cent.

COST OF PRODUCING A POUND OF INGOT IN NORTHWEST

Mr. TROY. Have you calculated the cost of producing a pound of ingot in the Northwest? Have you reached a conclusion as to what that cost will be?

Mr. GALLAGHER. Yes, sir; definitely.

Mr. TROY. Is that divulgable?

Mr. GALLAGHER. Well, it is contingent upon several things.

We have, of course, the actual operating figures as supplied by Alcoa. The Spokane cost is 11.35 before depreciation and transportation charges, and Troutdale is 11.57. Included in that price, however, is alumina, at about 5½ cents per pound. We would hope to reduce that price by about 1½ to 2 cents a pound.

Mr. TROY. In other words, these are calculated on records as they exist in the Alcoa operations?

Mr. GALLAGHER. Yes.

Mr. GOLDSCHMIDT. Was there any arrangement for forgiveness of freight charges in your offer?

Mr. GALLAGHER. In connection only with the Phoenix plant temporarily.

Mr. ANDERSON. Was it contemplated that you would move the Phoenix property once you determine a more suitable location?

Mr. GALLAGHER. We feel at least a portion of that plant will have to be moved, perhaps part of it to the Los Angeles area and part to the Pacific Northwest. There are no extrusion facilities available to the East right now, unless we make use of the Cressona facilities, which we might, and install them perhaps at the Newark, Ohio, rod and bar plant.

Mr. GOLDSCHMIDT. I hope your moving from Phoenix has nothing to do with power, because there is quite a power program contemplated in that area.

Mr. GALLAGHER. That would be a matter of economics, but I doubt if the full capacity of that plant can be used at Phoenix.

Senator O'MAHONEY. Very well, Mr. Gallagher. The committee is very much indebted to you, sir.

Mr. GALLAGHER. Thank you, Senator. I appreciate very much this opportunity.

Senator O'MAHONEY. Senator McFarland.

Senator MCFARLAND. Senator Hayden made a statement, I believe, earlier in the hearings while I was in Arizona and introduced the resolutions of the civic bodies and the city and town councils, as well as the union formerly connected with the operation of the aluminum plant at Phoenix. These resolutions expressed the opinions and wishes of the people in that locality.

ASKS THAT BIDS ON PHOENIX ALUMINUM PLANT BE LIMITED TO COMPANIES WHICH WILL OPERATE IN THAT LOCALITY

While I was there just last week, I found that the people were very much concerned about the operation of this plant at Phoenix and were very much desirous that the bids on this plant be limited to people who were willing to operate the plant there at Phoenix.

The plant, to a large extent, was manned by people of Maricopa County who were trained in the local vocational schools for employment at the plant. This same area is now facing the return of many tens of thousands of veterans who will need employment.

I believe that if we prevent bidding by companies who can operate this plant in Phoenix, it will result in the possibility of the machinery being removed from the plant and used for some purpose that will bring the Government far less return.

I urgently request you to give the matter serious attention toward the end that the plant will be disposed of in such manner that it will give reemployment to former employees and opportunity for employment to the many thousands who will seek employment in that area.

So far, statistics indicate that there will be about three times as many veterans returned to that area as entered the service from that area. Congress must provide something for these returning veterans,

and it is very important that this plant continue to be operated in that locality.

I join with Senator Hayden in urging that the bids be limited so that it will be operated in that locality. These people, according to these resolutions, feel that the Aluminum Co. of America should be allowed to bid upon this plant. They feel that they are qualified and are financially able to operate the plant, and they would like them to be permitted to bid along with the companies who are willing to operate the plant there at Phoenix.

I believe that Senator Hayden has pretty well covered the field, and I will not reiterate what he has already said, but we are very anxious and feel that it is very important that this plant be operated at Phoenix and not move out to some other locality.

Senator O'MAHONEY. Thank you, Senator.

The chairman of the Committee on Military Affairs is in receipt of a letter from the Standard Bauxite & Chemical Co., written on the letterhead of the Arkansas Stripping Co. This has also been received by Senator Murray, chairman of the Small Business Committee.

Inasmuch as it deals with this subject, it will be inserted in the record at this point.

(The letter and enclosure follow:)

ARKANSAS BAUXITE STRIPPING CO.,
Little Rock, Ark., October 15, 1945.

Senator ELBERT D. THOMAS,
Chairman, Military Affairs Committee,
Washington, D. C.

DEAR SIR: As press reports disclose that politicians highly placed in our State are furthering the program of the Aluminum Co. of America we believe your committee will be interested in the position of the Arkansas owners of bauxite. Copy of a letter to Mr. Symington on this subject is enclosed.

The owners of 6,000,000 tons of metal-grade bauxite, we are unable to sell our ore, and we see no market in the future if monopoly control is continued.

Arkansas has more than 15,000,000 tons of drilled and proven deposits of independently-owned metal-grade bauxite, and those who know the field believe that further exploration will locate many more large deposits.

Independent operation of the Hurricane Creek plant will insure a supply of low-cost alumina for Pacific coast reduction plants as well as for Jones Mill. Our proven deposits of independent bauxite, with the Government-owned stock piles and tailings storage, are ample to operate this plant at almost full capacity, and give the country a supply of low-cost alumina, for 15 or 20 years.

To maintain a vigorous light-metal industry the 300 aluminum fabricating plants in the Mississippi Valley and the Middle States must have a free and open market in which to buy aluminum. Jones Mill ingot can be made and delivered to them below the delivered cost of Alcoa ingot. The Jones Mill capacity should be enlarged to meet the full requirements of this market.

We believe the administration's program will insure permanent operation of the Government-owned facilities and reduce the price and increase the use of aluminum. We endorse the plans of the Attorney General and the Surplus Property Administrator to sell or lease the plants to operators who will provide competition in the bauxite and aluminum industry and we desire to cooperate with them to this end.

Very respectfully,

Standard Bauxite & Chemical Co., Benton, by Dan Hudspeth; Reichardt estate, Little Rock; Arkansas Bauxite Stripping Co., Little Rock; Victory Bauxite Co., Little Rock; Cleveland & Evans, Little Rock; V. L. Tindall and Earl W. Moorehead, Little Rock; W. J. Herring, Little Rock; Joe Hardin, Grady, Ark.; Grady Vaughn, Dallas, Tex.; Ed Hurley, Shreveport, La.

BENTON, ARK., *October 5, 1945.*

Hon. W. STUART SYMINGTON,
Surplus Property Director,
Washington, D. C.

DEAR SIR: Referring to enclosed press reports of your meeting with Senators McClellan and Fulbright, Mr. Phil Dulin and his sister, Mrs. Dixon, and Mr. H. F. McMahan, and their appeal for continued control of the bauxite and aluminum industry by the Aluminum Co. of America, it should be recorded that Dulin and McMahan are representing themselves and not the owners of other Arkansas bauxite.

These men are operators of three small-shaft mines. Last year, with three other shaft operators, they adopted the title of "Independent Bauxite Operators Association" to assist them in getting Congress to authorize the purchase by the Metals Reserve Company to buy additional bauxite which they feared would be lost if their shafts were abandoned. This objective was attained, and Dulin, Dixon, and McMahan now have unfilled contracts exceeding their ability to deliver ore. Recently other owners of bauxite were invited to join their "association." When it developed that Dulin and McMahan had adopted the views of Alcoa they lost the support of the new members who own more than 6,000,000 tons of metal-grade bauxite.

We ask to be placed on record as believing that the Attorney General's plans are feasible and practical, and we endorse the administration's efforts to destroy monopoly control of bauxite and aluminum.

Recent activities have no doubt made it clear to you that Alcoa's control in Arkansas does not stop with bauxite but covers our political field, our State agencies, and our State press.

We are prepared to contract to supply the bauxite requirements of the Hurricane Creek alumina plant and to cooperate in any way desired in the Government's program.

Very respectfully,

STANDARD BAUXITE & CHEMICAL CO.,
By DAN HUDSPETH.

Mr. BORCHARDT. Senator, may I ask you whether you know why that plant was shut down in Phoenix?

Senator MCFARLAND. I am not so much informed as to the details. I presume that it was shut down because of the end of the war, and probably the Government did not need the same amount of supplies that they needed previously.

Mr. BORCHARDT. I was just wondering whether that was part of the lease cancellation of the RFC.

Maybe Mr. Wilson can answer that question.

Mr. WILSON. May I have the question, please?

Mr. BORCHARDT. I wonder whether the closing down of the plant in Phoenix, Ariz., was the result of a lease cancellation on the part of the RFC or was it due to other reasons?

Mr. WILSON. The closing down was primarily occasioned by the cancellation of orders on which the plant theretofore had been operating.

Mr. BORCHARDT. In other words, this was not one of the instances where it was due to a cancellation of a lease between RFC and Alcoa which we discussed yesterday?

Mr. WILSON. No; that was not the cause, but the lease has been canceled.

Senator O'MAHONEY. Mr. Ely.

STATEMENT OF NORTHCUTT ELY, SPECIAL COUNSEL, DEPARTMENT OF WATER AND POWER, CITY OF LOS ANGELES, CALIF.

Mr. ELY. My name is Northcutt Ely, special counsel, department of water and power, city of Los Angeles, Calif.

Mr. Scattergood will make the presentation for the department in regular order, but I do ask the chairman's indulgence to correct one figure used by an earlier witness, because it may be important.

The statement has been made here that 18 percent of the Boulder Canyon project is allocated to flood control and written off in comparison with a very much larger write-off at some other projects. That is in error. No part of the cost of the Boulder Canyon project is written in consequence of any factor. As a matter of fact, the books of the Reclamation Bureau, I am advised, show, as of May 31, 1945, a total investment, exclusive of interest, during construction of approximately $142,000,000 and every penny of that is required under the Boulder Canyon Project Adjustment Act to be repaid within a 50-year period.

Twenty-five million dollars will, in fact, be allocated to flood control but must be repaid after the balance of the investment is retired, and that $25,000,000 is at once and simultaneously and automatically replaced by the addition of a new $25,000,000 factor representing payment in the Colorado River Development Fund.

Over and above that, the project rates are required to yield, during the 5-year period, $30,000,000 over and above the amortization requirements for payment to Arizona and Nevada in lieu of ~~Texas~~ Taxes?

The interest rate on that project is 3 percent as compared with 2½ percent on the Bonneville project referred to earlier. Also, all of the operation and maintenance expenses of the Boulder Canyon project, that is, of the dam and power plant, are borne by power, and no part of those expenses is allocable to navigation, irrigation, or flood control as is done on some other projects.

The current rate at Boulder Dam, for the water rate only, is 1.244 mills per kilowatt-hour for firm energy, and 0.392 mill per killowatt-hour for secondary energy. These, after adding in the charge for generating power equivalent to approximately 0.45 mill, produce costs at the switchboard of about 1.7 mills per kilowatt for firm energy, and about 0.85 mill for secondary energy.

The transmission lines from Boulder to the point of use, primarily in southern California, were constructed by the power users and not by the Government, as is the case of Bonneville or TVA, and that represents additional investment of about $50,000,000 to $55,000,000 to be retired by them, in addition to the amount they pay the United States.

In view of the information which has been developed in these hearings as to the entirely inconsistent bases of allocation of costs at the major Federal power-producing projects, I think that the direction or request given by the chairman to the Chairman of the Federal Power Commission to bring forward a comparison of these allocations and suggestions as to ways in which these rates may be reduced is of the utmost importance.

Surely, we desire to be placed in a position to enable this alumium industry in southern California to go forward.

We desire to see our friends in Phoenix, who also depend upon Colorado River power, aided in the same way, and we expect to see the gigantic new power developments in the upper basin of the Colorado River similarly protected.

Senator O'MAHONEY. I may say, Mr. Ely, that your statement is the first occasion upon which I have heard anything resembling a directive attributed to any Member of the Congress.

(A memorandum on provisions of Boulder Canyon project acts affecting to fixing of rates for Boulder energy, submitted by S. B. Robinson, chief assistant city attorney for water and power, Los Angeles, is inserted in record at conclusion of today's proceedings.)

Senator McClellan, did I understand that you wished to make an inquiry about the negotiations that were initiated this morning?

Senator MCCLELLAN. Has there been no report made?

Senator O'MAHONEY. I have had no report made as yet.

Senator MCCLELLAN. Is Mr. Husbands here?

Senator O'MAHONEY. Mr. Husbands is not, but Mr. Wilson is here.

Senator MCCLELLAN. Have you inquired of him?

Senator O'MAHONEY. No; I have not.

Senator MCCLELLAN. Mr. Wilson, would you like to make some statement?

I would like to have both you and Mr. Husbands here.

Mr. WILSON. Mr. Chairman, I wish I were in a position to make a statement. I met with Mr. Husbands, Mr. Cox, Mr. Goodloe, and Mr. Stansfield, of the RFC and the Surplus Property Board, this morning, and we spent more than 2 hours without succeeding in reaching any conclusion that I feel was of a character that we could report to the committee.

We got so far as to recognize the problems that were involved, with each of us trying to see if there were some way in which we could dispose of those problems. That is about as far as I can—in fairness to the committee—report.

Senator MCCLELLAN. Were there discussions as to the terms of an interim cancellation provision?

Mr. WILSON. That was one of the many problems that were raised, Senator.

Senator MCCLELLAN. Was the proposition made either way?

Mr. WILSON. No; we did not develop it to that point, and could not develop it to that point in discussion.

Senator MCCLELLAN. You mean you need further opportunity to negotiate?

Mr. WILSON. Yes, we do; to calculate and negotiate, I may add.

Senator MCCLELLAN. Did you proceed far enough so that there is any prospect of a solution being found of this situation whereby these plants that are now closed may be reopened?

Mr. WILSON. We never get to the point, on any of the problems that we have while we are trying to work them out, from our side, at least, where we are prepared to say there is no prospect. There is always the prospect, and we hope to make that prospect eventuate.

But I cannot say that for certainty.

Senator MCCLELLAN. Are there further conferences now contemplated between you?

Mr. WILSON. Definitely.

Senator O'MAHONEY. Thank you very much, Mr. Wilson.

It is impossible to proceed any further this evening because of prior engagements of the Chair.

The committee will stand in recess until 10 o'clock tomorrow morning, when, it is hoped, it will be possible to hear the remaining witnesses who have expressed a desire to be heard, and who have been invited.

(Whereupon, at 4:25 p. m., an adjournment was taken until 10 a. m. Friday, October 19, 1945.)

(The following memorandum by S. B. Robinson, chief assistant city attorney for water and power, Los Angeles, is inserted at this place by direction of the chairman:)

MEMORANDUM RE PROVISIONS OF BOULDER CANYON PROJECT ACT AND BOULDER CANYON PROJECT ADJUSTMENT ACT AFFECTING THE FIXING OF RATES FOR BOULDER ENERGY

(By S. B. Robinson)

The original Boulder Canyon Project Act (Public Law 642, 70th Cong., 43 U. S. C. A., 617-617t), authorized the Secretary of the Interior to make contracts for the privilege of generating electric energy, or for the sale of electric energy (sec. 5 (c)), as well as contracts for the storage and delivery of water (sec. 5), and also (sec. 4 (b)) provided that before any appropriation was made for the dam or power plant, or any construction work done or contracted for, the Secretary should obtain contracts "adequate in his judgment to insure payment of all expenses of operation and maintenance * * * and the repayment within 50 years * * *" of the advances for construction, together with interest thereon made reimbursable under the act.

Also (sec. 5 (a)), the act provided that——

"Contracts made pursuant to subdivision (a) of this section shall be made with a view to obtaining reasonable returns and shall contain provisions whereby at the end of 15 years from the date of their execution and every ten years thereafter, there shall be readjustment of the contract, upon the demand of either party thereto, either upward or downward as to price, as the Secretary of the Interior may find to be justified by competitive conditions at distributing points or competitive centers, * * *."

The act thus established the element of competitive value at distribution points or competitive centers—in other words, the "market value" theory—as the basis for the fixing of rates.

However, the act (sec. 4, last paragraph) gave Arizona and Nevada a substantial percentage of any "excess revenues" and (sec. 5, second paragraph) provided that—

"After the repayments to the United States of all money advanced with interest, charges shall be on such basis and the revenues derived therefrom shall be kept in a separate fund to be expended within the Colorado River Basin as may hereafter be prescribed by the Congress."

These provisions gave other States a financial interest in maintaining rates at the highest possible level, and it became apparent that political factors would make strict application of the "competitive value" theory almost impossible in the periodic readjustment of rates contemplated in the act.

Therefore, an effort to revise the theory of rate making was made, which resulted in the adoption of the Boulder Canyon Project Adjustment Act (Public Law 756, 76th Cong., ch. 643, 3d sess.).

This act directed that the Secretary promulgate charges, or the basis of computation thereof, during the 50-year period, 1937-87, computed to be sufficient, together with other net revenues from the project, to accomplish the following purposes:

(*a*) To meet the cost of operation and maintenance and to provide for replacements;

(*b*) To repay the Treasury advances, with interest, within 50 years, excluding $25,000,000 allocated to flood control, repayment of which was deferred, without interest, until 1987, after which time such advances are to be repaid as the Congress may determine;

(*c*) To provide $600,000 for each of the years, for payments to Arizona and Nevada, which, while not so expressed, were understood to be in lieu of taxes, and

(*d*) To provide $500,000 a year for a development fund, available for studies and investigations for the formulation of a comprehensive plan for the Colorado River system, and for construction purposes—the money for the first 3 years being earmarked for studies and investigations in the entire basin; money for the next 12 years for studies, investigations, and construction of upper-basin projects, and for the remainder of the 50 years, for studies and investigations and construction anywhere in the entire basin.

The "other net revenues," while not so declared, were understood to mean the revenues from the sale of water to the Metropolitan Water District of Southern California. These are estimated to amount to about 5 percent of the total, leaving power to bear about 95 percent of the costs of the project, plus $55,000,000 for payment to Arizona, Nevada, and the Treasury's special Colorado River development fund.

It will be noted that no nonreimbursable allocation whatsoever was made to flood control, which was one of the primary purposes of the act. Reimbursement was deferred, without interest, but not written off. No allocation was made to navigation, irrigation supply, or domestic supply, all of which, by the terms of the original act (sec. 6), were preferred uses, power being made the subordinate use, notwithstanding the fact that it was to foot substantially all of the bills.

It will be noted that even if the so-called allocation to flood control had been a write-off, instead of a mere deferment, it is completely offset by the requirement of a contribution to a fund for the development of the basin, inasmuch as the $500,000 a year required to be raised for that purpose amounts to $25,000,000 for the 50-year period.

ALUMINUM PLANT DISPOSAL

FRIDAY, OCTOBER 19, 1945

JOINT HEARING OF THE SUBCOMMITTEE ON SURPLUS PROPERTY OF THE COMMITTEE ON MILITARY AFFAIRS, THE SPECIAL COMMITTEE TO STUDY AND SURVEY PROBLEMS OF SMALL BUSINESS ENTERPRISES, AND THE INDUSTRIAL REORGANIZATION SUBCOMMITTEE OF THE SPECIAL COMMITTEE ON POSTWAR ECONOMIC POLICY AND PLANNING

UNITED STATES SENATE,
Washington, D. C.

The committees met pursuant to recess, at 10 a. m., in room 224, Senate Office Building, Senator James E. Murray (chairman of the Special Committee to Study and Survey Problems of Small Business Enterprises), presiding.

Present: Senators Murray and Revercomb.

Also present: Kurt Borchardt, counsel, Surplus Property Subcommittee of the Committee on Military Affairs; Dewey Anderson, executive secretary; C. E. Childs, consultant, and T. J. McBreen, Jr., chief of information, Senate Small Business Committee.

Senator MURRAY. Gentlemen, the hearing will come to order.

Before proceeding with the witnesses this morning, Mr. Gallagher of the Columbia Metals Co. desires to make a brief statement to clear up the record as to some matters that he thinks should be clarified.

ADDITIONAL STATEMENT OF J. O. GALLAGHER

Mr. GALLAGHER. Mr. Chairman, just to clear up a few points: quite a lot has been said during these hearings about the matter of power and the importance of it to the aluminum industry. Of course, it is important; but it has been referred to as being in the nature of a subsidy.

I just wanted to say that perhaps there will be, by reason of the international situation brought on by the Shipshaw development, justification for this Government subsidizing the aluminum industry as a whole, where ever it can, with respect to power. But we in the Pacfic Northwest—as a corporate entity, the Columbia Metals Corp., I would like to have it understood—are expecting no subsidy which would not also be available to the Aluminum Co. and to Reynolds.

One other point recommended in the original Small Business Committee's interim report was that the values of these plants be based upon earnings. I quite agree with that portion of the Aluminum Co.'s report with respect to the fallacy of basing values upon earnings. It

seems to me that would place a premium on inefficiency; and I would like to call your attention to the fact that the method of appraising these plants for purchase in our proposal has nothing to do with earnings at all.

I also believe that when that recommendation was made by the Small Business Committee, it had in mind putting a ceiling on the price of these facilities rather than using earnings to put an inflated value upon them.

Mr. BORCHARDT. Would you say that would be just one of the factors to be considered?

"EARNINGS," WITNESS SAYS, "SHOULD NOT BE A FACTOR IN DETERMINING VALUE OF PLANTS"

Mr. GALLAGHER. No; I don't think earnings should be a factor at all. There are physical facilities, and there will be certain disadvantages, certain factors, such as poor location, which should be used in discounting the values of the facilities; but if management is going to have the proper incentive to make a good showing in the operations of those plants, the purchasers certainly should not be penalized in the pricing of the plants when they buy them by reason of good performance and earnings.

I think it is rather important that that should be cleared up. I am sure it was not the intention of the Small Business Committee to recommend that earnings, or the basis of earnings, if it resulted in inflating the values of these plants, would necessarily control.

Dr. ANDERSON. Mr. Gallagher, to make this point clear, it is an astounding and new point to me to find, as an economist, that you would not consider earnings as an important factor in determining the value of anything. Do you believe in the normal course of events that, if good performance resulted from your management of these properties, there would as a consequence be an inflated value of the plant?

I took it yesterday from your testimony, you were talking about what would be a reasonable price for a particular plant, and you cut it down to about a half or two-thirds of its present value. You wouldn't presume that if you operated that plant well and efficiently you would be paying excessively for it in the calculation of this price if that factor were taken into account?

Mr. GALLAGHER. I cannot see, Mr. Anderson, that earnings should have a value or should be a factor. We should look at these facilities from the standpoint of what would be their replacement cost under normal peacetime conditions.

This aluminum industry is rather peculiar, in that if there are extraordinary earnings, those earnings would probably accrue from some particular technology or particular ingenuity, or perhaps a patent which would not be available.

Senator MURRAY. Location also would have some important bearing, would it not?

Mr. GALLAGHER. Yes; of course. But if you were going to get into a discussion of the factor of earnings in their application to the appraisal value of these plants, it seems to me you would have an endless argument as to what was responsible for the earnings, whether it was your own ingenuity, resourcefulness, patents, or technology, or what.

Mr. BORCHARDT. Instead of earnings, if you said "opportunity for market," might that help? Is the factor of availability of market to be considered?

Mr. GALLAGHER. The availability of market for your finished product?

Mr. BORCHARDT. Yes.

Mr. GALLAGHER. Of course, that is just another way of saying that the plant is not properly located. Is that not true?

Mr. BORCHARDT. What I have in mind is that if these plants are constructed for a certain capacity, and if you have no possibility of reaching that capacity during peacetime—do you not then have to take into consideration that lesser capacity rather than the capacity for which the plants were originally constructed? Would not therefore the market be important in evaluating your plants?

Mr. GALLAGHER. Yes; but under those circumstances it would be rather inconceivable that the earnings would be excessive. It would be inconceivable that the earnings would be excessive, in which case there would be no problem.

Dr. ANDERSON. That is precisely our points. We cannot conceive in the normal course of events, in the period of time which these leases with options to buy would run, of a situation short of a phenomenal prosperity, which we do not now visualize, that would make these earnings excessive. It seems to me you have an academic question anyway you look at it.

It was a surprising thing to me to hear that you would not talk about the economic value as one of the factors in determining the price to be paid for these things. I recall, for example, badly located plants, and I think your testimony yesterday referred to such plants, in which there would have to be a considerable write down because of bad location. That in itself is a write-down based upon an economic interpretation of value.

Mr. GALLAGHER. Then, I think we are in agreement with our thinking on this thing. You are thinking of using the factor of earnings by way of discounting the value of the facilities.

Dr. ANDERSON. Precisely so.

Mr. GALLAGHER. Well, of course, that is all right, but you have got to place that interpretation on it. Otherwise, you will be giving the new operator every incentive to operate inefficiently.

Dr. ANDERSON. We don't want any such implication to be borne by the statements made, and I am glad the record has been made clear.

Mr. GALLAGHER. That is why I thought it was important to have that cleared up.

Senator MURRAY. You may proceed with your statement, Mr. Gallagher.

DECLARES STOCK-PILING OF BAUXITE IN LARGE QUANTITIES DOESN'T "MAKE SENSE"

Mr. GALLAGHER. One other thing I would like to have clarified is a recommendation of the War Department. When General Sorensen testified the other day, I believe he used the figure of 450,000,000 pounds' capacity to be maintained in stand-by condition. Is my understanding correct on that?

Mr. BORCHARDT. That is correct, as far as my recollection goes.

Mr. GALLAGHER. I think that recommendation would stand some careful analysis. It seems to me that maintaining 450,000,000 pounds of aluminum capacity in stand-by condition would be in the first place impractical just from a physical standpoint, and in the second place much more expensive than it would be to accumulate the product you would expect to make out of those facilities and hold it pending the time you might have a national emergency.

Mr. GOLDSCHMIDT. Your point being, I suppose, that you would also have to keep that much power capacity in reserve in order to supply the aluminum capacity?

Mr. GALLAGHER. Exactly. Why not convert the power now?

It doesn't seem to me to make sense to have a lot of uneconomic facilities sitting around, paying interest on the investment and paying the cost of maintenance and so forth. If the proper utilization of the Government's own facilities is made anyway, this country will be adequately equipped in my opinion to supply aluminum rather quickly.

It may be that it would be advisable to have a reasonable stock pile of aluminum pig to be an extra measure of insurance, in view of our atomic-bomb development.

Dr. ANDERSON. Just to summarize that point, because I think it is agreed it is one of the crucial factors in the disposal of all plants, the problem of ingot supply and its purchase is a central one.

Isn't it true that if we should develop a proper stock-piling ingot program now, you have in effect a stock pile in raw materials, manpower, electric power, and transportation all in one at the proper time when it can have the most beneficial economic effect and still be ready as a reserve for immediate use in case of any military emergency?

Mr. GALLAGHER. Exactly. This idea of stock piling bauxite did not seem to me to make sense. You have to convert bauxite into alumina and into aluminum. One bomb could ruin our alumina facilities, and there we would be with bauxite only; whereas, if we have aluminum, we have the scattered prefabricating facilities all over the country, and the danger would not be nearly so great.

I want to say a word about "know how." I have the profoundest respect for the aggregation of "know how" that both the Aluminum Co. of America and the Reynolds Metals have; and there is particular technique in the aluminum industry, undoubtedly, perhaps more than prevails in other lines of business.

At the same time, I recognize no mystery in connection with the "know how" in the aluminum industry. There isn't anything in the processes or operations involving more than fundamental engineering, chemistry, science, and so forth, that is not available to any intelligent and well-informed person.

The purchasing of metal at no profit to the seller is no subsidy, provided the price does not exceed market price. That is the key to the disposition of these plants, Senator Murray, and I think it is very important that that be resolved.

I am convinced, and I have some very good support in this statement, that I have just made, that purchasing of metal at no profit to the seller is no subsidy, provided the price does not exceed market price; in other words, so long as you don't have to pay any more for the metal than you would at the market. Under the particular plan we are suggesting, we rather suspect that the Government would buy this metal at less than the market price.

Senator MURRAY. There is no possible question of subsidy there?

Mr. GALLAGHER. No. Any metal that they buy, they buy at sound value with no profit to the seller, and they could put it on their balance sheet as a sound asset.

I have just one other thing. I would like to say that the Columbia Metals Corp., as a local interest in the Pacific Northwest, is vitally interested in the development of industry out there. We have more than an ordinary business interest in implementing this program of establishing and maintaining a completely integrated aluminum industry, centered in the Pacific Northwest. We have no quarrel with Alcoa or Reynolds. They both have substantial investments in the Pacific Northwest, and we hope they will continue there and will expand their operations.

I would like to say that I believe through the establishment of competition, the difficulties between the Department of Justice, the courts, and Alcoa will be certainly a long way toward solution, and that dissolution of the Aluminum Co. in my opinion should not and probably will not, with the proper developments, be necessary.

Thank you very much, Senator.

Senator MURRAY. Thank you for your statement.

Mr. Gumbel of the RFC wishes to make a statement.

STATEMENT OF IRVING GUMBEL, OFFICE OF SURPLUS PROPERTY, RECONSTRUCTION FINANCE CORPORATION

Mr. GUMBEL. Mr. Husbands has asked me to make a brief statement for the record in connection with the remarks of the representative of the Reynolds Metals Co.

With reference to the discussion of the RFC contracts and agreements with Aluminum Co. of America, Reynolds, and Aluminium, Ltd., that was covered in some detail in the hearings before your Small Business Committee this spring, I call attention in particular to Mr. Husbands' letter to Senator Stewart, which appears on page 6116 of part 47 of the hearings.

In addition to that, Mr. Caskie remarked on several occasions that the RFC had rejected his proposal. That is not entirely correct. Mr. Husbands informed Mr. Caskie that as the proposal stood, he did not feel justified in recommending it to the RFC board of directors, but he would be glad to suggest to Mr. Caskie alterations in the proposal which he thought might make it acceptable.

Dr. ANDERSON. Do we understand then that the proposal read by Mr. Caskie into the record yesterday is an offer from the Reynolds Metals Corp. which you are now entertaining, that it is open to negotiation, and you treat it as such a document?

Mr. GUMBEL. Right.

Senator MURRAY. Thank you.

The next witness is Mr. Lawrence Harvey.

STATEMENT OF LAWRENCE HARVEY, HARVEY MACHINE CO., LOS ANGELES, CALIF.

Mr. HARVEY. My interest, as a small businessman in the West, is in seeing that the aluminum industry is maintained and developed on the west coast.

During the wartime we employed in southern California, in particular, in over some 6,000 plants that were acquainted with the fabrication of aluminum products, approximately 150,000 skilled craftsmen. To the best of my knowledge there are no operators of aluminum-making sheet, extrusion, or pig west of the Mississippi. We are interested in the establishment of a facility not only for the purpose of competition in the price of aluminum between various companies, but in the reduction of our delivery costs, which means a reduction of freight prices.

PROMPT DISPOSITION OF ALUMINUM PLANTS ESSENTIAL TO FULL EMPLOYMENT

We believe that the immediate disposition of these facilities is essential to the prompt employment of people in our community. As an example, my own company has laid off approximately 850 people. The Bohn aluminum-extrusion plant there laid off approximately 350 people. The percentage of the reduction at Bohn was 100 percent, and in our plant approximately 75 percent. That reduction in employment is common throughout our aluminum metal working industries, and since the people are acquainted with that particular trade and that particular work, and have it in their heads as engineers, and in their hands as technicians, it is essential that they be given the material to work with.

I would suggest that one of the problems in relation to disposal of these plants, the question of power, be handled by the Federal Government through its various power agencies, and by the muncipal government of Los Angeles on the most economical basis that is possible in order to provide maximum employment. It is my understanding that in the Los Angeles area our rates are much higher than those that prevail in other sections of the country, and I would urge Congress to pass some act to enable our city to secure a lower power rate from the Boulder Dam construction.

ADVOCATES PAY-AS-YOU-GO BASIS, PREFERABLY IN FORM OF LEASE, AS WAY TO ATTRACT INTEREST OF SMALL BUSINESS PEOPLE IN ALUMINUM PLANTS

I want to emphasize the fact that time is of the essence. In California our unemployment rolls are mounting at the rate of 13,000 to 14,000, I believe it is, a week. The people that were employed in these aluminum plants are out of work. We want to put them to work now, not a year from now. We feel that private or small business does not have the financial resources to borrow money, float stock, or speculative issues, to put out a large capital investment in the purchase of these plants. We believe the most feasible plan for the Government in the handling of these plants would be on some sort of a pay-as-you-go basis, preferably in some form of a lease, either as a percentage of profits, percentage of cost of the products, or as a fixed price per pound of products produced.

We say that because we believe that the small business men's capital should be tied up in the purchase of raw material and in the employment of labor, rather than a fixed capital investment, and we figure that the best interest of the Government is served by paying the Government a return on its investment, rather than by liquidating its capital investment. We urge upon your body to so recommend.

We believe that the 5-year term of lease is too short a period for small business to operate its plants, because we know there are business cycles that extend longer than that period of time. It takes time to get established, to develop your markets and personnel, and it would seem to us that by the end of 5 years you are just getting well established. At that time there might be some changes which would force you all of a sudden to go out of business—because somebody else would take your plant away, maybe some large competitor, richer than you are, or by some other means.

There has been an objection interposed to the purchase of plants on a competitive basis because of the problem relating to taxation, what we call current losses of a capital item. I have been advised—I do not have to have the exact facts—that it is possible for rather large or rich corporations or individuals to gather together and each purchase a plant that the other person is interested in and purchase that plant at a higher than a reasonable price at which some ordinary business man with limited capital could purchase it; and, then, selling to one another, taking the loss off as a current loss and charging the difference, the loss, to the Government on income taxes during the current period. We know of such cases as having occurred in a few instances.

URGES ESTABLISHMENT OF ALUMINUM INDUSTRY ON PACIFIC COAST TO MAXIMUM DEGREE

We believe that the aluminum industry should be established on the west coast to its maximum degree, because approximately 65 percent of all military aircraft and the major homes of principal aircraft companies are located on the west coast and should have a source of raw material and development in the aluminum metal working industry within that area.

Again, I want to emphasize that time is of the essence in the disposal of these plants.

Product designs have been frozen on automobiles, household appliances, and construction, and if the Government desires to further monopoly of any particular company, one of the best things it could do is to delay its action in the prompt disposal of these plants, because it would give them an opportunity to develop not only the know-how in the manufacturing technique but the know-how in products and in market distribution and salesmanship which are almost as essential as the manufacturing technique.

Mr. BORCHARDT. Yesterday, the Senate passed a resolution postponing the disposal of plants under section 19 of the Surplus Property Act for another 30 days. You would not interpret that resolu-

tion as postponing any negotiations on your part or anybody else's part interested in the manufacturing plants at this present time?

Mr. HARVEY. Well, I would say that I was not in favor of the resolution as it relates to other than the alumina and the reduction furnace equipment, because all of the other classes of equipment which have the largest capital investment are items which small business may purchase, such as forging presses, casting foundries, and various classes of buildings. Hundreds of millions of dollars of extrusion equipment is available that can be used.

The important thing to the businessman is that he doesn't have the time and money to sit around and wait. He cannot stand idle. He has got to do something now. There is a vulgar expression for it—you have got to get off where you are sitting and get moving. You can't wait; and it is very essential to move fast.

Dr. ANDERSON. What do you mean by "time is of the essence"?

Would you put it in terms of your own plant operations, what you are interested in, and use it as an example of how the businessman approaches this problem of time in negotiation with the Government?

Mr. HARVEY. Of course, I traveled 7,000 miles to get here, when you figure the round trip, and I am away from my business. I am the principal executive of my company, and if I am away, it is expensive both in my time and in loss of direction to my company; and what I mean by doing business promptly, I mean doing business within a week. Let's decide, "yes" or "no."

I have got to do something, because a small businessman who travels makes up his mind what he is going to do. He is not like a stock speculator or promoter. He is not fishing. He has got in mind what he wants to do, and he wants a "yes" or "no" answer. He doesn't want a "maybe" answer.

Dr. ANDERSON. So that a month or 2 months or 3 months means a major difference to you between one decision and another?

MILLIONS OF POUNDS OF SCRAP LEFT ON PACIFIC COAST SHOULD BE STOCK-PILED

Mr. HARVEY. Very definitely. As far as I personally am concerned, if I don't get an immediate answer on what I am after, I am not interested any more. I cannot afford to be. I cannot afford to stay idle. If I stay idle or remain indecisive about my reconversion problem for 3 months, the overhead would almost ruin me. It keeps on running anyway. You have got to produce a product. I cannot make a success unless I employ people.

For instance, we are interested in aluminum. The other day we needed aluminum for a certain product we are making, a very simple item, and I believe I have got a sample in my pockets. It is a hose fitting. I bought the material for this hose fitting in New York, and I don't see why I should buy it in New York City when there is an idle plant sitting in Los Angeles. I do not see why I should pay a couple of cents transportation, if for no other reason, I don't see why the millions of pounds of scrap left on the Pacific coast, the basic material used in most of the fabricating plants, should not immediately be put in operation either by some reduction mill or some extrusion mill or some sheet-drawing mill.

I would recommend to the Government that the surplus material it now has in usable scrap be stock-piled, in effect, for the purchases of the fabrication plants, because one of our best means of competition for the next year or so is our raw material price. Since you have got, I understand from the RFC, approximately 500,000,000 pounds of surplus scrap of all grades and kinds, that is a substantial dollar volume. The average going price, I understand, is from 4 cents to around 6 cents for what we call clear, segregated scrap. That is several millions of dollars, and that is the basic material that is competitive with your 14- and 15-cent pig that you are talking about.

Mr. BORCHARDT. Mr. Harvey, have you submitted to the RFC a specific proposal embodying the conditions you have just proposed to this committee?

Mr. HARVEY. No; I have not, and the reason is that I want to know the circumstances upon which the Government was considering or entertaining an offer.

I had discussed the subject matter with the RFC and was interested in a lease with an option-to-purchase proposal, and I was told that I could either negotiate a sale or I could negotiate a lease, but I could not negotiate a lease with an option to purchase at a specific price.

Mr. BORCHARDT. Were you told anything about a long-term lease beyond the term of 5 years?

Mr. HARVEY. I was told that they were prevented by statute from having more than 5 years.

Senator MURRAY. The RFC would like to comment on that.

Mr. GUMBEL. I was at that meeting. We told Mr. Harvey that the board was not particularly anxious to make leases with options to sell but that we would be glad to entertain any proposal he cared to make.

Mr. BORCHARDT. Would you now be prepared to submit a specific proposal to the RFC embodying the conditions you laid before the committee?

Mr. HARVEY. Yes; we are considering that. One of the things I need is prompt action. I don't want to play upon your words, Mr. Gumbel, but we are not here for entertainment. We do not care to have something entertained. We want to have something done.

Mr. BORCHARDT. I want to bring out that the RFC has to have some basis upon which to act, and the basis in your case would be a specific proposal submitted to RFC for action. That is why I asked whether you are prepared to submit an offer.

Mr. HARVEY. We contemplate putting forth such a plan, but I want you to understand the basis for it.

You see, the particular plant I am interested in originally cost the Government in excess of $5,000,000, and I understand the sale has to be approved by Congress. The equipment in the plant and buildings that I am interested in represents an original cost of less than $5,000,000, and there is a very nice question of law of whether or not they could sell an item where you stripped the plant of some of your original cost, and whether it would mean the original cost remaining or the original cost of the total plant without congressional approval.

Mr. GALLAGHER. Mr. Chairman, may I ask a question?

Senator MURRAY. You may.

Mr. GALLAGHER. Mr. Harvey made a very simple and appealing statement with respect to this whole problem. I would like to ask

him first whether or not he is thinking he comprehends the larger program, the larger investments, including the reduction plants, whether the larger prefabricating and alumina plants—when you speak of leasing the plants with an option to purchase?

Mr. HARVEY. Mr. Gallagher, I am primarily a fabricator of aluminum products in all shapes. My interest is in the fabrication business.

Mr. GALLAGHER. I understand; but in your thinking about the overall principle of leasing these plants with an option to purchase, does your thinking comprehend the whole picture?

Mr. HARVEY. My thinking comprehends not only the aluminum picture but all the other plants out there on the west coast. I know many of these people intimately and have talked to them, and I know the basis on which they could proceed to work the thing out.

For example, consider a plant which costs the business a million dollars. If the man buys it, maybe his total working capital might be a quarter of a million dollars. Where is he going to get the rest of the money? If he puts up equity, he cannot buy raw materials or employ labor. If he goes too far in debt, a slight turn in the events of business may put him out of business entirely. That is why it is important for people to be on a lease basis, which is a pay-as-you-go basis, with an option to purchase.

If he can successfully operate it, agree upon a price at which you will sell it to him; if he cannot operate it successfully, do not penalize him. Even if he is an unsuccessful operator, he will in the meantime employ people and do business in the community.

Senator MURRAY. Isn't such a policy recognized now by the different disposal agencies with reference to these plants?

Mr. HARVEY. I so understand it, since I have been to Washington and attended these hearings.

Senator MURRAY. It seems to me that is a highly reasonable method of handling it. It is a method which has been in operation in this country for a century or more. I know that it is the method in the mining industry—of leasing mining properties and selling them on a basis of percentage of profits. I know of a number of such contracts in operation.

Mr. GALLAGHER. With respect to the question brought up by Mr. Gumbel about the attitude of the RFC with respect to leasing with options to purchase, is it not true that it is recommended in the Surplus Property Board's report to Congress that these plants be leased with an option to purchase, and if Congress does not take exception to that recommendation within the time limit now set, will RFC not be in the position to lease with option to purchase?

Mr. GUMBEL. I was under the impression, though, that that recommendation applied specifically to the alumina and reduction plants.

Mr. HARVEY. And not to the small fabricating plants?

Mr. GUMBEL. Except under special conditions.

Mr. HARVEY. I don't know what the special conditions are.

Mr. BORCHARDT. I do not think there is any distinction made in the report with respect to alumina and aluminum plants and fabricating plants as far as leasing with options are concerned.

Mr. GUMBEL. There are, I think, 20 objectives in the Surplus Property Act, and in considering any proposal we have to see how it fits in with all the different objectives of the act. If such a proposal would best fit the objectives of the act, it would be acceptable.

Dr. ANDERSON. Mr. Harvey, you mentioned a number, several hundreds, of fabricators of light metals in the Los Angeles area, many of whom are now facing problems similar to yours concerning reconversion and postwar plans of operation.

You came all the way to Washington. No other independent operator has come before the committee from the Los Angeles area. No spokesman has come for the group. I was wondering, in your experience to date, whether you knew the experience of the other men in the field, and whether the Government mechanism of advertising these plants for sale, for lease, or for disposal, and steps taken after such announcement, are adequate to enlist the interest and further the needs of the several hundred businessmen of your area?

PEOPLE DO NOT KNOW HOW PLANTS WILL BE OFFERED FOR SALE

Mr. HARVEY. To answer your question, in all fairness to RFC, the plants have only recently been declared surplus; and in discussing it with their engineers and representatives, they have been most cooperative and courteous to us and all the people I know they have contacted.

But the report has just been filed. Theoretically, on October 21, I think it was, they could go ahead and make some kind of a firm commitment, and the thing has been hanging fire. The people in Los Angeles and through that area have been cooperative and have shown anyone that had any interest at all in these plants every courtesy, and I have talked to them myself and to a number of people who have inspected these plants. But the people do not know how they are going to be offered; they don't know how to start meeting them, so to speak.

Senator REVERCOMB. Have they made inquiries of RFC about how to do that?

Mr. HARVEY. They have made inquiries of RFC. For example, on the particular plant I am interested in, they said, "Submit us an offer." Well, time is of the essence. You have got to have something to do. My policy has always been, and the reason I came back to Washington is, that I want to sit down with the person who has authority to say "Yes" or "No." That is what I am looking for, the "Yes" or "No" man.

Mr. GALLAGHER. There is no such.

Mr. HARVEY. Maybe I am naive, but in small business that is what you have to have. By the time a man goes to too many people, he will dissipate his efforts; he has lost his time.

Mr. GOLDSCHMIDT. Mr. Chairman, I would like to ask Mr. Harvey a question. We are naturally very much interested in the development of fabricating plants on the west coast because of their effect upon our power system out there, and I was wondering whether the question of disposal of aluminum reduction plants had any bearing on whether or not you said "yes" or "no" in the purchase of a fabricating plant.

Mr. HARVEY. It would not have any bearing at all.

Mr. GOLDSCHMIDT. In other words, you would be willing to buy the fabricating plant whether you had to get your raw material in New York or not?

Mr. HARVEY. That is correct. You see, there is an independent source for the material that you might use, and that is the scrap dealers in the country, because there is a tremendous accumulation

of scrap from private industry and Government surplus. That scrap hanging over the market, in my opinion, is one of the big bugaboos for anybody undertaking operation.

Mr. ANDERSON. So you, in effect, have a competitive supply available to you, and you are not reduced to the position of being dependent entirely upon the Aluminum Co. for your materials?

Mr. HARVEY. We would be competitive for two reasons: One is because we have an independent source, which is scrap available, not manufactured by the Aluminum Co.; and second, we believe, as a small business, we operate more efficiently and economically than a large corporation, and we believe if we purchase at the same price which Alcoa charges by itself, per unit, that we can fabricate at a lower cost than Alcoa can.

Mr. DELUCCIA. Does the cost of power make any difference to you in your fabrication as between your ability to produce in the West and in the East?

Mr. HARVEY. To answer your question, I would say "yes" and "no." For instance, the Bone plant, I am advised, has a minimum stand-by of some $6,000 a month. That is a charge whether they use the power or not, which I think is fundamentally unfair to an industry. They should be charged on the basis of consumption. On that kind of charge, where you have the contract for your power whether you use it or not, it would cost around $70,000 to $80,000 just to own the key to the place, and in that case it would be a handicap.

There is another problem involved there, which happens to be city taxes. Our municipality thought that the Government plant was a good source of revenue and slapped on what we think would be an unfair tax. They charged $136,000 on the property of the Bone Aluminum Corp. In other words, with a stand-by charge of the municipality for power and the taxes for the muncipality, to own the key to that plant would cost a quarter of a million dollars a year, which, to me, is an undue charge upon small business.

Dr. ANDERSON. Is that tax charge run through the wringer of State equalization so it is in line with other charges for industrial properties?

Mr. HARVEY. No; it has not been, but there is one other problem in connection with it. In order to seek more revenue, the assessor has increased, in my opinion unduly, the assessed valuation of the plant by considering as the valuation the cost to the Government of the facilities. We all realize that is an inflated cost, and although they are not supposed to charge for machinery because it is Government-owned property, they included the cost of foundations, piping, wiring, and heavy equipment that could not be moved without being basically dismantled as part of the assessed valuation of the building. I think before any one of these operators consider the operation of any one of these plants, a large Government plant which you cannot use to full capacity, one of the very material considerations is the assessed valuation for taxation thereon by the local authorities.

Senator REVERCOMB. You have a local problem, then, with your local authorities so acting upon the subject of taxation as to drive industry away.

EXCESSIVE LOCAL TAXES IN LOS ANGELES DETERS WOULD-BE LESSEES

Mr. HARVEY. The report that I have here of a taxpayers' association states that one of the reasons that the lessee of the plant in Los Angeles gave up the plant was because of the excessive taxation charged by the city. In talking with the manager of the plant, where I got my figures on the stand-by charge, he said it was unreasonable for them as a company to pay a quarter of a million dollars to the city for taxation and power merely to own the keys to the place.

Senator REVERCOMB. Can there be local relief from that?

Mr. HARVEY. I understand, sir, that you can appeal to the board of equalization for relaxation, and the bureau of power and light has a representative here, and he has assured us that they will negotiate and entertain some kind of reduction for power.

Mr. BORCHARDT. You have listened to the presentation of the other witnesses during the last week. Your situation is somewhat different from the situation of the other companies which are interested in leasing or purchasing the alumina or aluminum plants or aluminum-reduction plants.

Your proposal, which you made to the committee, does not suggest any kind of a guaranty against losses of working capital and does not suggest any kind of a purchasing of metal, so that an entirely different situation is presented here to the committee from the situation presented yesterday and the day before yesterday.

Mr. HARVEY. I made no formal proposal, sir, but it does differ in that my thought in the matter of what small business would want would not be a stock pile of material, but it may contemplate that they would desire to have a stock pile of the material which the Government has as surplus from war canceled contracts available to it for its fabrication, which would be a method of supplying at competitive costs. But the cost to the Government would not be a loss, since I think most operators would be willing to pay the current going market price.

Mr. BORCHARDT. That would be a question of selling of surpluses on the part of the Government rather than acquiring unneeded materials?

Mr. HARVEY. That is right, sir.

Mr. GOLDSCHMIDT. Do you use aluminum in ingot form?

Mr. HARVEY. Yes; the aluminum is used in ingot form and put into the smelting furnaces and may be reduced into the following forms: either in permanent mold form, a sand casting, an extrusion, or die casting.

Senator MURRAY. Does that conclude your statement?

Mr. HARVEY. Yes, sir.

Senator MURRAY. Thank you very much.

The next witness will be Mr. E. F. Scattergood, of Los Angeles Water and Power Department.

STATEMENT OF E. F. SCATTERGOOD, ADVISORY ENGINEER, ACCOMPANIED BY S. B. ROBINSON, CHIEF ASSISTANT CITY ATTORNEY FOR WATER AND POWER, AND NORTHCUTT ELY, SPECIAL COUNSEL, LOS ANGELES WATER AND POWER DEPARTMENT, LOS ANGELES

Mr. SCATTERGOOD. My name is E. F. Scattergood, advisory engineer, Department of Water and Power of Los Angeles, Calif.

I have prepared a comparatively short statement of four pages. Because of my present condition for a few days, not being able to read

readily, I am going to ask that the attorney, Northcutt Ely, read paragraph by paragraph as though I did it myself, and questions may be asked as may be desired as we go along.

Senator MURRAY. That will be perfectly proper.

ESTIMATED THAT PEACETIME INDUSTRIAL MARKET FOR ALUMINUM IN PACIFIC COAST WOULD CONSUME 120,000,000 POUNDS ANNUALLY

Mr. SCATTERGOOD. First off, Mr. Chairman, I wish to mention, so that in going over the statement these points may perhaps be clearer, that in the Los Angeles or southern California area there is an existing market, a conservatively estimated market for aluminum for the immediate and continuing future. That is, immediate within a year or two perhaps of development. The market is estimated by those independent of our department and city for the Pacific coast, as I understand it, and our department engineers and business agent feel it is conservative, at 120,000,000 pounds of aluminum per year of which some 15,000,000 would be in the Northwest and 105,000,000 in the Pacific Southwest.

The market, being there an integrated aluminum industry complete, as is contemplated by these committees, Mr. Chairman, would be free, to the extent of the capacity corresponding to the market available to such production and fabricating industries in that area, of transportation charges in competing for the local market.

Incidentally, the Federal Government—in the application of the principles that have been set out in the three reports spoken of here by the Director of Surplus Property Disposal, the Attorney General, and the interim report of the Small Business Committee—would not have to take into account transportation for an integrated aluminum industry of the magnitude of 100,000,000 pounds per year or more. The industry would have, as a basis of give-and-take in their financial experiences, that differential of transportation, and I would call attention to the fact that transportation of aluminum is a very substantial item because the products of semifabricated aluminum from an extrusion plant or rod plant or sheet rolling mill, have to be crated. It costs to crate. It is light in proportion to bulk, and must be transported by first-class freight, and so the freight is heavy in proportion to durable goods generally.

In the Los Angeles area, Mr. Harvey has clearly expressed in his very apt and important statement the conditions of the area for the benefit of your committee, and his statement was exceedingly pertinent. It relates to developments for the market available, some of which may be the Pacific ports in the comparatively near future, and the main part of it for consumption locally.

In that area, as Mr. Harvey has stated, there is industrial leadership, commercial leadership, and skilled workmen as a body ready and available for operations.

In the development of plants of all kinds in the Los Angeles area, for furtherance of the war, 400,000 or 500,000 people came in there, and a large part of them were trained there, and we understand the shutdown was due to the influence of the War Manpower Commission.

We are confident that we are right in the expression that the purposes, as we understand them of the Congress, in enacting the antitrust

law and the Disposal of Surplus Property Act, and of your committees, the Attorney General and the Surplus Property Director, are employment in the near immediate future, as well as competition—which, of course, is saying in part the same thing indirectly, because it would result in employment.

In the Los Angeles metropolitan area, first off, and later extending throughout the Pacific Southwest, through the influence of our department of water and power in essentially providing the water and the electric power at much below the average cost of those utilities in the country, there have been built up very many small businesses and industries with consequent large employment. There are some 6,250 small industries in the immediate Los Angeles area. Of those, perhaps 400 or 500 might be considered as intermediate in size, but only a very few of them would be termed large industries.

LOS ANGELES URGED AS MOST ECONOMICAL WEST COAST LOCATION FOR BASIC INDUSTRY PLANTS

There is need there for the expansion in numbers and in capacity of operation—for the thrift, happiness, and employment for all these skilled men and others—some basic industry products, of which aluminum is one and perhaps the most conspicuous one.

We are here in Washington considering the continuance of those plants that have been there during the war in the West, in Utah, and California in particular.

From what I understood from the reports referred to, alumina can be produced in Los Angeles cheaper than in the Northwest because of several conditions, fuel for heating being one of the more important ones. The differential, according to the best estimates of able engineers that have worked at it for a long time, is $4 a ton for aluminum ingot.

An aluminum rolling mill of 60,000,000 pounds per year capacity, for postwar purposes and diversity of products—which unfortunately was not located there at the time they were located for war purposes—can be operated in Los Angeles for $300,000 or $350,000 a year less than in Spokane, for example. I just mention that as a matter of information which may be of some service. The aluminum reduction plant at Boulder power cost, transmitted and delivered, reverses the rolling mill approximately 50–50 or 100 percent and offsets it. The net set-up then would compare favorably as an integrated industry.

As to the fabrication for the market, there are small industries which are available there, and they will multiply if an aluminum integrated industry is worked out. Aside from adjustment in rentals or sale prices, in accordance with its expressed policies, all the Government need do in order to be sure, of an integrated aluminum industry working out, with proper consideration on the part of those that may be interested—for the purposes of a reduction plant, only would be an equivalent of putting Boulder power on the basis of Bonneville power as it is today. There is nothing more needed and the Government wouldn't need to buy any aluminum pig unless it wanted to, in which case another pot line could be operated. Two pot lines, probably, would be sufficient for the purposes that I have visualized, along with the 60,000,000-pound-per-year aluminum sheet rolling mill, because

all other fabrication would be taken care of by small business, and small industries would multiply in an area that had been deliberately planned for small business and small industry by placing it in five or six different locations in the open where the workmen have to a large degree what has been called subsistence homesteads to live in and not slums.

It is also attractive to branches of big business which are being located there.

If I may repeat, you don't need to buy any pig or ingot, and you don't need to pay any transportation which is heavy on aluminum from an extrusion mill to a market, or for pig from a reduction plant to your stock pile.

An adjustment of power for the purpose of accomplishing the wishes of this committee in making employment and building up competitive centers may be accomplished without anything that at all resembles a subsidy. It is simply a removal of a discrimination between Government plants with respect to at least some piece of business in which the Government is interested.

Personally, I cannot understand why those who have testified here who seem so interested in producing aluminum in other places are not interested in conditions of this sort.

With those remarks, I will ask Mr. Ely to read this with such questions as any of you may desire, which I will attempt to testify to, as far as I can.

Senator MURRAY. We appreciate your preliminary remarks. I think you have made a very valuable suggestion.

Mr. ELY. This statement is entitled, "Statement presented by the department of water and power of the city of Los Angeles before the joint committee hearings on the aluminum plant disposal program of the Surplus Property Administration." It is as follows:

As, of course, the members of the committees are aware, a five-pot-line aluminum reduction plant and an aluminum extrusion plant belonging to the Reconstruction Finance Corporation and included in the aluminum plant disposal program are situated in the city of Los Angeles, Calif. The city as a community, and particularly as the center of one of the major aluminum using areas of the country, and its department of water and power as the supplier of water and electric energy to those plants, are vitally interested in their continuing operation for the furtherance of employment and more advantageous provision of durable goods for that area.

The department of water and power has been a major factor in the economic development of that city and in influencing such development throughout southern California. This has resulted from the provision of an ample supply of water and electric energy at rates to the consumer which are low as compared with the national average, thus encouraging industrial development—particularly the development of small industries in which the ratio of the number of workers employed to the volume of business is high. This in turn has encouraged development of commercial enterprises and the maintenance of a high standard of living.

Through long-range planning these water and power supplies have never failed in meeting the demand even under the stress of war production and rapid population growth. Similarly, planning is now in progress looking to future years to the end that they may be provided well ahead of requirements and industry may have the assurance of a continuing ample supply of these necessities.

The relative importance of smaller plants within the city of Los Angeles is indicated by the fact that there are approximately 6,250 plants engaged in manufacturing, of which 5,775 are definitely in the small-plant category, and the balance are larger plants, although only a few of them would be regarded as coming within the "big business" category. Before the war they were lacking the means, locally, of providing products of the larger basic industries. It is essential, therefore, that all possible encouragement should be given to the establishment of plants producing basic or semifinished products to supply the multitude of smaller plants which will engage in their fabrication for the local market as well as export to South America and to the Pacific. For this reason the importance of an integrated aluminum industry cannot be too strongly stressed.

The cost of producing aluminum at the Los Angeles plant during the war was high because of several conditions prevailing at the time. Among these was the fact that the plant was operated at only partial capacity, although full operation had been provided for. Another fact was that the cost of electric power was necessarily high for this reason and the further reason that Boulder Dam power, which had been expected to be available, was in large part diverted to the operation of the magnesium plant near Las Vegas, Nev., resulting in the necessity for generating a substantial part of the electric energy for the aluminum plant at steam electric-generating plants. All of this is set forth in a letter dated October 5, 1945, from Samuel B. Morris, general manager and chief engineer of the department of water and power, addressed to the Honorable James E. Murray, chairman of the Senate Small Business Committee, and the document submitted with that letter, copies of which are filed herewith.

SOURCES OF POWER AVAILABLE TO LOS ANGELES

Senator REVERCOMB. How do you generate your power in Los Angeles?

Mr. SCATTERGOOD. The city municipal bureau of power and light gets something more than half its power from the Boulder power plant. We operate the generators ourselves that supply the power for our uses and other public agencies.

Southern California Edison Co., outside the city, gets a part, but a smaller part of its power.

We have other hydroelectric plants along our own aqueduct in conjunction with the Los Angeles water supply, and we have some steam capacity.

Senator REVERCOMB. To what extent is your electricity generated through steam?

Mr. SCATTERGOOD. At the present time only some peaking and standby. During the operation of these war plants, in addition to all the rest, there was about 20 percent of it at times generated by steam.

Senator REVERCOMB. Where do you get your coal?

Mr. SCATTERGOOD. We get oil fuel.

Senator REVERCOMB. You use oil as fuel?

Mr. SCATTERGOOD. Yes; and we get that locally.

Senator REVERCOMB. It is more costly to generate by oil than by your hydro plants?

Mr. SCATTERGOOD. At the present prices of oil; yes.

Mr. ELY (continuing):

As stated in that letter the Los Angeles Department of Water and Power is now prepared to suggest a rate for aluminum reduction, in connection with an integrated aluminum industry, including a sheet-rolling mill, of $1.75 per kilowatt of demand per month, for two pot lines, for a period of 3 years. This is based on the availability of a supply of lower cost hydroelectric energy not yet marketed which can be made available for aluminum production for that period of time. This charge would result in a rate of 2.5 mills per kilowatt-hour for 700 hours per month use of the demand. This suggestion contemplates that after the 3-year period the normal schedule will be applicable and will provide a rate of $2.10 per kilowatt of demand per month which would result in a rate of 3 mills per kilowatt-hour for such 700 hours per month use of the demand.

Because of the cost of producing energy and the long distance of transmission it is not feasible to develop a rate as low as the cost to Alcoa in Tennessee, for example.

The department of water and power of Los Angeles most heartily endorses the policies expressed in the report of Surplus Property Administrator Symington to Congress dated September 21, 1945, the Report of Attorney General Clark on the Aluminum Industry, and the Interim Report of the Surplus War Property Subcommittee of the Small Business Committee of the Senate and desires to cooperate in every possible way to the end that an integrated aluminum industry may be maintained in the Los Angeles area under terms and conditions which are in harmony with the policies so set forth.

From the enactment by Congress of the antitrust and surplus property acts and from the policies set out in these three reports—clearly for the purposes of bringing about a condition of competition and eliminating the ill effects of monopoly from the standpoint of the national and human interest—we understand that it is the intention of the Congress and the committees and agencies concerned to make possible the establishment on a competitive basis of integrated aluminum production and fabrication in various centers, through the application of every appropriate means available to the Government. We have in mind, more specifically, that in fixing rentals for the aluminum reduction plant in Los Angeles there might be taken into account the lower investment in plants of the Aluminum Co. of America established before the war in Tennessee; the fact of the company being placed in a position of ability to liquidate a considerable part of such costs from operations during the war period; and the differential between the cost of power transmitted from the Federal Boulder Canyon project and the power cost to the company in Tennessee.

Also that the Government would be in a position to furnish alumina to independents from its stockpile in Arkansas, at competitive prices, pending the working out, with the aid of Federal research organizations and understandings with foreign nations, of the availability of bauxite for use in alumina plants that may be established as a part of such integrated aluminum projects in the comparatively near future.

We believe the Congress and the members of the committees have fully in mind the further purpose, incidental to reasonably stabilizing the future price of aluminum for the betterment of the national and human interest, of bringing about justification for the establishment of thousands of small fabricating plants, with their comparatively large ratio of employment, in every competitive center and, perhaps in lesser degree, throughout every section of the country.

In addition to the presently existing plants, operation by an independent producer, and complete integration of the aluminum industry requires a source of alumina close to the southern California area, and a sheet mill, both of which will require capital investment in addition to working capital, as distinguished from the reduction and extrusion plants which may be operated under leasing arrangements. It is hoped that every assistance will be given by the Washington agencies involved so that such financing may be attractive to independent operators and that, to the extent that may be practical equipment now located elsewhere may be made available for use in the Los Angeles area, as contemplated by the reports now before these committees.

We feel there is ample justification for presenting these suggestions to your committees respecting establishment of an integrated aluminum project in the Los Angeles area in the fact that an aluminum rolling mill can be maintained and operated in that area on a very favorable competitive basis aside from the advantage in transportation costs in furnishing its local and prospective foreign markets, and in the further fact that the Los Angeles area is a natural point for such an integrated operation, as it is not only the center of the aluminum market in the west—in part because of the extensive use in airplane production—but also because the area provides other favorable factors, such as an ample and skilled labor supply, desirable living conditions and forward-looking community leaders.

Conservative estimates indicate that there can be no question as to the adequacy of the market for an integrated aluminum industry centered in the Los Angeles area. There is attached a tabulation prepared by the business agent's division of the department of water and power in collaboration with industrial leaders and interested civic groups indicating for California and the Pacific Southwest a market of 105,800,000 pounds of aluminum per annum. This quantity is predicated, of course, on a stable price on aluminum resulting from free competition. Particular attention is called to the notes appearing on the statement referred to.

Facts relating to the general prewar industrial development in the Los Angeles area may be illuminative in the consideration of the possibilities for an integrated aluminum industry in that area. The prewar place of the Los Angeles area in various lines of industry is shown by the following table.

PLACE IN INDUSTRY

First in oil tool manufacturing.
First in airplane manufacturing.
Second in automobile assembly.
Second in tire fabrication.
Third in food packing and processing.
Fourth in apparel manufacturing.
Fourth in furniture manufacturing.

Within recent months qualified industrial engineers of the department of water and power of the city of Los Angeles have made analyses of the costs of aluminum production and related actitvities in the Los Angeles area and elsewhere. An analysis of certain of such costs as between the Los Angeles area and the Pacific Northwest can be available in Washington within a few days and if desired will be filed with the committee. While it is fully realized that these committees must consider many factors relating to costs in places other than Pacific-coast areas, it is believed that the analysis last referred to may be of some interest to the committees and to those who may be considering the possibility of engaging in aluminum industry in the Los Angeles area.

(Signed) E. F. SCATTERGOOD,
Advisory Engineer.

Annexed hereto are letters addressed to the Honorable James E. Murray, chairman, dated October 5, signed by Samuel B. Morris, general manager and chief engineer; also a letter dated October 5 to Senator Murray signed by E. F. Scattergood, advisory engineer; and an estimate of market for aluminum for Pacific Southwest industries, signed by Charles C. Snyder, business agent.

(The documents referred to, read as follows:)

OCTOBER 5, 1945.

Hon. JAMES E. MURRAY,
Chairman, Special Committee to Study
Problems of American Small Business,
Senate Office Building, Washington, D. C.

Attention of Mr. Dewey Anderson, executive secretary.

GENTLEMEN: Inquiries have been made on behalf of your committee by your executive secretary, Mr. Dewey Anderson, and by representatives of institutions interested in aluminum production and fabrication for information regarding the extent of the power supply and cost of the same for aluminum reduction plants, in particular, in Los Angeles. An additional request was for clarification of the testimony given before your committee to the effect that power for aluminum reduction in Los Angeles cost 4.28 cents per pound.

The high lights of negotiations leading to the former contract between this department and the Defense Plant Corporation, together with the basis of charges for power under the contract, are set out in the accompanying statement by Advisory Engineer E. F. Scattergood, who largely negotiated the contract on behalf of the department.

The actual charges for electric power of the highest degree of reliability and regulation of service under the more normal conditions of plant operation during the period from January to July, 1944, averaged 2.9 cents per pound, power being delivered to the Government substation at 132,000 volts. This does not include the preferred service charge which was applied by this department when, at the Government's request, it was necessary for us to provide for 170,000 kilowatts instead of the 85,000 originally planned. The Government's request to provide for the increased demand was made at approximately the same time that the Government allocated a portion of the Boulder power to the magnesium plant, which further complicated our ability to deliver surplus power. The preferred service charge amounted to an average of 0.7 cents per pound during the normal plant operation mentioned above. The total cost of power then over that period

averaged 3.6 cents per pound. The report of the Attorney General under section 205 of the War Mobilization and Reconversion Act of 1944 contains an additional charge of approximately 0.4 cents per pound for power, which is not explained but may be intended to cover costs for power losses in connection with the Government-owned substation. However, our power cost, based on the actual cost of energy delivered by the utility and power costs as tabulated in the Attorney General's report contrast appreciably with the testimony before your committee that the cost was 4.28 cents per pound.

We are also sensible of the need for the establishment of a sheet aluminum rolling mill, of possibly 60,000,000 pounds yearly capacity, in this area. The availability of sheet aluminum in this area through establishment of such a mill would be much greater than through its production and shipment from other locations either in the Northwest or East. Likewise the cost resulting from the saving in freight rates would be much lower. Its presence here, together with existing extrusion and other aluminum plants now located here, would greatly encourage the use of aluminum by the thousands of existing small industries and the establishment of additional small industries in southern California.

The Department is prepared to suggest a change in the electric rate for the aluminum plant provided a rolling mill be established here, in conjunction with the operation of the extrusion plant. The Department would then provide electric energy for two pot lines for a period of 3 years at the reduction plant under an electrochemical schedule at a rate of $1.75 per kilowatt of demand, in lieu of the present specified rate of $2.10 per kilowatt of demand per month. This suggested rate, which does not include any incremental charge for preferred service, as contained in the original contract, would result in a production cost for power of 2.5 cents per pound. This rate is predicated on the present supply of surplus hydroelectric power which will be available for a 3-year period. Also, the Department is prepared to negotiate for a third pot line under probable conditions of its being supplied primarily from steam power.

We are unable to check the power costs tabulated in the Attorney General's report of the Spokane and Troutdale plants, which, on the basis of 10 kilowatt-hours per pound of aluminum produced, would be at a rate less than that in the published rates of the Northwest area. This power cost, seemingly at a lower rate than those published, evidently does not include any incremental amounts in addition to the charges made by the electric utility such as appears to be added to the power cost for the Los Angeles plant.

Sincerely,

(Signed) SAMUEL B. MORRIS,
General Manager and Chief Engineer.

OCTOBER 5, 1945.

Hon. JAMES E. MURRAY,
Chairman, Special Committee to Study Problems of American Small Business, Senate Office Building, Washington, D. C.
(Attention of Mr. Dewey Anderson, executive secretary.)

GENTLEMEN: The intense interest shown and commendable work of your committee in encouragement extended to small business, which we all know is essential to successful readjustment, and the interest shown in aluminum production and fabrication as affecting small industry, and frequent references from many sources to the Los Angeles reduction plant, leads me to believe that a brief statement respecting negotiations with the War Production Board and the Defense Plant Corporation preliminary to the power contract will be of interest, particularly in conjunction with the communication of date by the general manager and chief engineer of the Department of Water and Power of Los Angeles, Mr. Samuel B. Morris, setting forth past and proposed electric power charges by this department for aluminum reduction.

In June 1941 the department of water and power volunteered, in response to the Government's S O S call for power for aluminum to furnish 50,000 kilowatts at approximately 3 mills per kilowatt-hour under normal plant operation under its P–3 schedule, except that it would be "preferred service" as required under war conditions.

Then Washington requested that we raise it to 85,000 kilowatts, and Mr. Krug was notified officially August 19, 1941, that the department would furnish 85,000 kilowatts at said rate.

Then the department learned, quite by chance, that the Interior Department was contemplating for use a large block of Boulder power for magnesium production at Las Vegas.

The department called for definite information regarding the intention of the Federal Government respecting magnesium production, and conferences were held in Los Angeles January 14–17, 1942, with Mr. Krug and representatives of Defense Plant Corporation, Department of the Interior, Metropolitan Water District, Edison Co., and department of water and power present. At these conferences power for magnesium was quite definitely set up and limited by statement from the Interior Department and the power contractors, the Edison Co., and department of water and power waived notice under their contracts in the interest of the war effort.

Clearly this Federal requirement for magnesium left the situation respecting possibility of power for aluminum production in Los Angeles in a substantially different status.

Then, in February, Mr. Bunker, of the Aluminum Branch, notified the city of the necessity of establishing five pot lines for aluminum production in Los Angeles, requiring a maximum of 170,000 kilowatts.

In August 1941, Mr. Krug and a representative of the War Department came to Los Angeles and urged the Department to develop the Owens River Gorge power, a water power readily feasible of production with some tunnel work previously done. This was discussed with Defense Plant Corporation with a showing that it would cost the city more than 3 mills for such a quantity of power for aluminum reduction because of the large block of Boulder power being taken for magnesium and the necessity of developing Owens River Gorge or steam or both. The DPC refused to contribute toward the development of the Owens River Gorge in order that the rate might remain unchanged for the remaining Boulder power and the Gorge power. Eventually priorities prevented its development so that a considerabe percentage of steam power was required for the aluminum plant.

Accordingly understandings were worked out with DPC by which the city would undertake to supply power for the five pot lines with a provision for an increment in the rate corresponding to the city's average cost for stand-by ("preferred service") as clearly the power would be necessarily preferred power and not the reverse as normally contemplated by the city's P–3 schedule. With the expectancy of the available Boulder power the city had previously offered to provide up to 85,000 kilowatts of preferred service without any increment for stand-by, but with power taken away for magnesium and the demand for aluminum reduction being increased to 170,000 kilowatts, it was utterly impossible without direct loss to the city.

Furthermore, it became necessary to provide that insofar as some of the five pot lines might necessarily be provided from steam power there would be an additional charge for the cost to the department of providing the steam power in excess of the rate otherwise received.

It is clear from the above that the department of water and power sought only to protect itself against direct loss on account of the added burdens which the Federal Government imposed on the Boulder power plant and other power supplies available to the department with which to fulfill the power demands. It is worthy of note that complete power pooling by the publicly and privately owned utilities of southern California made possible the availability of more than 500,000 kilowatts of power for war purposes.

Present power conditions in this area available to the department are such that it can undertake to supply power for, certainly, two pot lines during the next 5 years and presumably indefinitely. Also, that such power supply would be of such a reliable character as to not justify any provision for stand-by, that is, preferred service. In other words, the power would be of sufficiently high reliability and delivered under excellent voltage regulation such as was experienced by the former lessee whose representatives asserted that the character of power supply resulted in ability to produce an unusually high quality of aluminum at lower cost because of the permissible operation in excess of rating.

Respectfully,

(Signed) E. F. SCATTERGOOD.
Advisory Engineer.

An estimate of market for aluminum for Pacific Southwest industries

Prepared by business agent's division, department of water and power

[Estimates based upon information obtained from local and national markets and from executives of local manufacturing companies]

End product:	*Annual quantity of aluminum, pounds*
Airplanes	30,000,000
Automobiles	50,000,000
Furniture	2,500,000
Auto trailers	2,000,000
Truck trailers	3,750,000
Residential building construction materials	2,250,000
Commercial, architectural and decorative materials	5,000,000
Cooking utensils	5,000,000
Aluminum foil	1,000,000
Home appliances	2,350,000
Miscellaneous:	
Fixtures, reflectors, hardware, aluminum powders, refrigeration, pistons, heaters, containers and a multitude of extruded-pressed and die-cast articles	2,000,000
Total	105,800,000

NOTES: (1) An executive of a local extrusion plant states that he surveyed the southern California market and that it appears his company could obtain orders that would require 10,000,000 pounds of aluminum annually.

(2) Automotive manufacturers are reluctant in converting to the use of aluminum as long as a monopoly exists. The item of 50,000,000 pounds for use in the automobile assembly plants is based upon use of 100 pounds of aluminum per car assembled in California. Other estimates for automobile use run as high as 400 pounds. Our estimates are, therefore, conservative.

(3) Of further interest with respect to the market is the statement of a leading local producer of aircraft that his peacetime planning anticipates the use of approximately 10,000,000 pounds of aluminum per year, and his estimate that this is probably one-third of the total for aircraft in this market area, indicating a total of 30,000,000 pounds annually.

(4) The residential construction program indicates for Los Angeles County alone a rate of 50,000 units per year for a period estimated at 5 years, and at a lesser rate thereafter depending upon business conditions. No doubt aluminum for window and door sash and other structural parts, if aggressively promoted, will be used in considerable quantities estimated in the foregoing tabulation at 2,250,000 pounds annually.

(Signed) CHAS. C. SNYDER, *Business Agent.*

Senator MURRAY. Does anyone desire to make any comment on any of these letters?

Mr. OLDS. Mr. Chairman, I would like to ask one question in connection with the statement.

In connection with this $1.75 special rate per kilowatt of demand per month, is that on the basis of actual monthly demand or on the basis of contract demand?

Mr. SCATTERGOOD. Actual monthly demand.

Mr. OLDS. If the demand of the aluminum pot lines rose and fell from month to month, the charge would be simply to the actual demand for that particular month?

Mr. SCATTERGOOD. Yes.

Mr. Chairman, there is one other thing that appeared from the reading of this statement that might be of definite interest to work out, and that is the removal of some aluminum rolling mill capacity to be placed there in the Los Angeles area in line with the policies expressed in the reports that I have referred to.

That is all, Mr. Chairman.

Senator MURRAY. Your recommendation will be given very careful consideration.

Mr. GOLDSCHMIDT. May I ask a question?

This tabulation of allocations of cost which was put in the record in connection with the statement of Mr. Arnold Troy was prepared by your bureau; was it not?

Mr. SCATTERGOOD. I have never seen them but Mr. Troy spoke of them and I understood from him that in part at least they were prepared for him by one of the department engineers, Mr. Cozzens.

MR. GOLDSCHMIDT EXPLAINS POSITION OF DEPARTMENT OF THE INTERIOR RESPECTING DEVELOPMENT IN WESTERN STATES

Mr. GOLDSCHMIDT. Mr. Ely yesterday made some corrections or corrected some impressions in connection with that tabulation, and I want to make the point here, Mr. Chairman, that I think the impression created by these tabulations with respect to the cost of power in the Northwest are also not quite accurate.

This tabulation was not read into the record, and was only called to my attention after the hearing yesterday. I do not wish to take up the time of the committee but merely enter an exception to the acceptance of the implication of these figures.

Senator MURRAY. Would you care to make an analysis of it and submit it to the committee?

Mr. GOLDSCHMIDT. I would be glad to do so if the committee wishes. I want to point out merely in passing that the power costs of Bonneville-Coulee system are required to return to the Government considerably higher investment than are included in this tabulation.

Senator MURRAY. Thank you.

Mr. ELY. Mr. Chairman, I think your suggestion is very good, and we will be happy to include an analysis of the repayment requirements of Boulder, also in more detail, so they may be studied together.

Mr. GOLDSCHMIDT. I would like the record also to be clear that in raising this point I am not objecting to any of the statements that have been made by the Bureau of Power and Light.

The Department of the Interior is exceedingly interested in both the Southwest area and in the Northwest area as a business proposition. We have tremendous investments in those areas and are tremendously interested in the development of the aluminum industry, the light metals industry, fabrication, steel, and other products that can be consumed in the western market and in the Far East.

We are working closely with the Los Angeles people, as we do with the Northwest people, and any statement that I have made here with respect to our interest in this matter, I want to make clear is not limited geographically to the Northwest or indeed to the Los Angeles area, but is related to the entire West, including the Arkansas southwestern power area, and the Montana area.

Senator MURRAY. Thank you. I am glad you include Montana there. We are badly in need of some industrial development out there.

Mr. HARVEY. Did I understand the Bureau of Power and Light to say they are considering, for the operation of facilities, that they will put the power rate on the basis of consumption rather than upon a demand load?

I know I am not using the proper technical terms, but I think you understand what I mean.

79912—45——21

Mr. SCATTERGOOD. The form of schedule for the aluminum or electrochemical high load factor plants is based on the monthly demand in kilowatts.

Mr. HARVEY. What do you mean by "demand," the connected load or the load actually used?

Mr. SCATTERGOOD. The load actually used.

Mr. HARVEY. How about an extrusion plant?

Mr. SCATTERGOOD. The extrusion plant is under a different schedule, because it is a different type of demand and load, all worked out in accordance with costs to provide such service.

Mr. GOLDSCHMIDT. I think it ought to be said in fairness to the power-producing agencies on the point that you make, to bring out again the point that I made after Mr. Caskie testified; namely, that the problem confronting the power-producing agencies is one of securing revenue for facilities that are provided, whether or not the consuming industries use them.

Mr. HARVEY. If they don't use it, they don't have any income. No matter what the basis of computation, if you don't use it, you don't have any income.

Mr. GOLDSCHMIDT. The power facilities are such an integral part of the aluminum-producing facilities that it becomes different from your situation. If you set up an aluminum reduction plant, you would have to pay capital charges on the cost of that plant. If you issued bonds to build an aluminum reduction mill, you would have to pay capital charges on that mill whether or not it was operating at capacity, half capacity, or not operating at all.

As part of that plant construction, if you also put up the power facilities, you would be in the same fix with respect to that portion of your plant.

Our problem has been that we have put in the investment in the aluminum business, and on these Government plants, the Government has had to pay capital charges on the aluminum plants as well as on the power plants.

Mr. HARVEY. I think there should be a sharp distinction between an institution established by the Government for the general service of the community in that its profit is measured not only in gross revenue, but the general profit in the economic welfare of the community.

Mr. GOLDSCHMIDT. I am glad to have that brought out.

Dr. ANDERSON. Especially, by a businessman.

Mr. SCATTERGOOD. Mr. Chairman, the whole purpose of the establishment of the Bureau of Power and Light of Los Angeles was to develop a community, particularly manufacturing, and thus create a balanced economy there with opportunity for thousands of people who insist on living there by the balanced economy which has thus been brought about.

The whole purpose is that accomplishment, and a utility must necessarily charge for each cost of service a rate proportional to the cost. Otherwise, some other class of consumer has to pay it.

The point that Mr. Harvey is concerned about, he need not be concerned about here or at all—he testified that he was advised the power bureau charged the Bohn Co. a minimum of $6,000 per month whether the company used any energy or not at the extrusion plant, and I wish

to correct his understanding as the minimum charge in the power contract with the Bohn Co. was only $1,700 per month, and certainly will not be any more in the future, and was a reasonable minimum for a plant estimated to use up to 10,000 kilowatts of demand.

We provided 550,000 kilowatts for the war effort for which the Government did not advance a dollar for that capacity on account of the war effort, or during the war period.

We made interconnections for parallel operation at a cost of between $500,000 and $600,000, to the utilities there, and we did not ask the Government for a dollar of that, and we haven't yet settled how we are going to settle between the public and private institutions there.

That is the spirit of that country out there, and we are there to further small business, and we will do it.

Mr. GOLDSCHMIDT. May I, in commenting on what you said, point out that you were not able to write anything of that off on any 5-year tax amortization either.

Mr. ELY. Mr. Goldschmidt is quite correct. The public power generating agencies who made war investments were unable to amortize them during the period of the war. I want to express our appreciation for what Mr. Goldschmidt has said about the interest of the Interior Department in all of these Federal projects, without distinction. What has been brought out here, by the way, is one of the most interesting and dramatic problems that we in the West face in the postwar developments. We are out, for the time being, from the area of sharp conflict or competition between public power and private power and are into an area of much greater concern in the long run, of potential competition between these gigantic Federal projects.

The Federal policy on amortization, interest rates, write-offs, and so forth, for one area, one great dam, if more favorable than that of another area, swings the whole economy of the West in one direction or the other.

Boulder first was set up on an entirely different basis than Bonneville or TVA. That is not to say that one scheme or the other is right or wrong, but they can't all be right. Some readjustments are necessary as we go along, and the Government now has this tremendous stake in the aluminum industry and the cost of power high-lights that as no other development to date has done.

We welcome this, which I gather is a sympathetic study of the whole program which we may hope for from the Interior Department and the Federal Power Commission.

Senator MURRAY. Thank you very much for your statement.

The next witness will be Mr. Matthew Davis.

STATEMENT OF MATTHEW W. DAVIS, REPRESENTING INTERNATIONAL ALUMINUM COUNCIL OF THE AMERICAN FEDERATION OF LABOR

Mr. DAVIS. Mr. Chairman, gentlemen of the committee, my name is Matthew W. Davis, of Louisville, Ky. I represent the international aluminum council of the American Federation of Labor. This committee invited Mr. Edward Stahl, of Pittsburgh, president of the international aluminum council, to appear at this hearing. He was

unable to attend and directed me to appear and represent him.

Our principal interest in the disposition of the Government-owned aluminum plants is to see that they are so disposed of as to create the maximum peacetime employment. During the wartime emergency thousands of American workmen have become skilled in working in various phases of aluminum production and fabrication. Should these Government plants remain closed long these workers will be dispersed and it will be hard to reassemble them when the plants are reopened. For that reason we are anxious that there be an early decision as to what is to be done with the plants so those that are to operate can be properly manned by trained workmen.

For half a century Alcoa has had a monopoly in the aluminum production. Their idea has been to keep production of aluminum low and the price high. With this condition the big potential users of aluminum have been unwilling to use it. They have feared that if they started using aluminum in big quantities that the Aluminum Co. would raise the price as they have done in the past, notably in the case of Ford Motor Co. when it started using aluminum in automobiles.

TIME IDEAL FOR GOVERNMENT TO CREATE COMPETITIVE CONDITION IN ALUMINUM

We are certain that this is the ideal time for the Government to act in creating a competitive condition in aluminum. When it is demonstrated that there is more than one source of supply of aluminum and that there is competition which will prevent the price from being raised, we believe that the automobile industry, railway transportation industry, and other industries who could use aluminum to advantage, will start using aluminum in big quantities. That will mean the development of a big aluminum industry which will provide jobs for thousands of the workers who have learned during the war the skills of working in various phases of aluminum.

Mr. Symington, Surplus Property Administrator, said in his report that the Government-owned plants should be disposed of to competitors of the Aluminum Co. so as to create competition. We believe that would be helpful to workers in aluminum. If these plants are properly disposed of it will make it possible for us to put our workers back to work. If they are required to long remain idle the men who have been working in these plants will hunt for other jobs and the pool of men experienced in aluminum work will be dispersed.

The Surplus Property Disposal Act authorized leasing these plants for as much as 5 years. We doubt that an operator experienced in aluminum production is available who would have the money with which to buy these plants outright so a lease on a basis that would permit operation is a good idea. We believe that if a competitive aluminum condition is created that the industry will be largely and permanently expanded. If expansion of the industry is left to the Aluminum Co. we doubt that there will be an expansion. In the past Alcoa's plan has been to keep production down.

Now that the Government has these plants in which there is invested $700,000,000, we the workers of the aluminum industry urge that we take advantage of the opportunity now before us to build an aluminum industry in which control will no longer be centered in one company.

FREE ENTERPRISE HAS NEVER EXISTED IN ALUMINUM INDUSTRY

I have been sitting here listening to these hearings. I have heard a lot said about the sacredness of free enterprise. I have heard a lot said about how bad a Government subsidy plan would be in operation of these aluminum plants. There has never been free enterprise in the aluminum industry in the United States. It has been completely dominated and controlled by the Aluminum Co. The Federal court's decision in which it holds that the Aluminum Co. is a monopoly is proof of my assertion. Instead of having free enterprise the aluminum industry has operated under conditions in which free enterprise has been stifled. Now is the ideal time to change that situation. It may never come again. Unless the Government in disposing of these plants gives a chance to the only company that has had the nerve to compete with Alcoa a chance to become a factor, free enterprise in the aluminum industry will continue to be a mockery.

The idea expressed here at these hearings has been that a subsidy, the Government participating in business is a terrible thing. But Alcoa has been operating these Government-owned aluminum plants under a subsidy in which they were guaranteed against loss by the Government. The United States subsidized the biggest aluminum production facility in the world at Shipshaw, Canada, loaned the Aluminum Co. of Canada $68,000,000 to build a plant outside the United States, which can now make aluminum cheaper than anywhere else. But if anyone thinks that there is going to be competition between Alcoa and the Aluminum Co. of Canada they are going to be disappointed.

ALCOA SUBSIDIZED ALL THROUGH THE WAR

After subsidizing Alcoa all through the war, from which subsidy they made millions of dollars, after subsidizing the big aluminum plant in Canada, it is now decided by Alcoa and her friends that a subsidy is a bad thing.

There ought to be a big aluminum industry in this country. There can be if the Government-owned plants are wisely disposed of so as to create a competitive aluminum industry.

The Government has a lot of money tied up in these plants. If they should be leased to operators who sincerely want to expand the industry, prove to the big potential users of aluminum that they can buy the metal when they need it and as much of it as they need without the price being unexpectedly hiked on them, we will soon establish a real aluminum industry on a sound basis. It will grow and expand. When that happens the Government-owned aluminum plants will have increased in value as going concerns and a greater portion of the taxpayer's money will be recovered from the investment.

The Government has paid out huge sums in subsidizing aluminum during the war. Why would it be such a frightful thing to follow somewhat the same principle during peace in order to maintain employment, create jobs for workers, instead of leaving them to subsist off of unemployment compensation payments? Why would it not be a fine thing from a long-range view, to use the Government's aluminum plants in conjunction with a firm that knows how to operate them, so as to help a new, venturesome company through the trying period of

reconversion as effort is made to establish for the future an aluminum industry that is competitive? If that be done, the use of aluminum will multiply and the number of workers employed permanently will be increased.

COMPETITIVE ALUMINUM VITAL TO NATIONAL DEFENSE

The aluminum workers don't want to be idle and depend only on the meager sum from unemployment compensation. They want to work. Would it be a horrible thing for the Government to keep these plants running so as to prevent unemployment and for the first time in America establish free enterprise in the aluminum industry instead of leaving it under the control of Alcoa? Pleading for the workers of the industry, I urge you not to lose sight of our interests as you consider disposing of these plants.

A competitive aluminum industry is vital to national defense. Attorney General Tom Clark said in his recent report to you: "The establishment of competition requires an end to Alcoa's domination. Nothing else will be enough." He says further "Monopoly conditions were the main reasons for the absence of a safety margin in aluminum," as war needs developed. He says further, "Right from the outset, therefore, the aluminum situation was more serious than it would have been had there been competition."

So creating competition in the aluminum industry would not only be best for protection of the Government in time of war but we think it would be best for the workers in aluminum.

Senator MURRAY. Thank you for your statement, Mr. Davis.

The next witness is Mr. Cary.

STATEMENT OF FRANCIS C. CARY, OF HYBINETTE & CARY, WILMINGTON, DEL.

Mr. CARY. My name is Francis C. Cary. I am a member of the firm of Hybinette & Cary, metallurgists, of Wilmington, Del.

To qualify myself as an expert on aluminum, I will say that we have operated the only independent laboratory on aluminum in the United States for the past 25 years. One of the processes which was patented out of that laboratory increases the strength of alloys 25 percent. Alcoa has charged 5 cents per pound in its price of sheets during the war for the use of this invention. The amount charged exceeds $50,000,000, and this is in excess of the amount paid by Alcoa to the Government for the rent of all plants.

Senator MURRAY. This patent was a patent your concern developed?

Mr. CARY. Yes; that is right.

Senator MURRAY. And Alcoa has used that patent on a royalty basis to your concern?

Mr. CARY. I haven't mentioned that. They have not paid royalties, although they told the Defense Plant Corporation a year ago in April that they had sent us the first quarter of a million dollars for that quarter. We haven't received it yet.

Senator MURRAY. It is in the mail now—is it?

Mr. CARY. I presume so, and the subsequent checks have not been received.

Now, we are here to try to create a competitive aluminum industry. We have three producers of aluminum: Reynolds, Olin, and Alcoa.

I will ask the gentlemen here to interrupt me at any time that I make an error or am not on the beam on figures. I intend to give the committee as much facts as they will permit me to give.

DOESN'T REGARD AN INDUSTRY THAT NEEDS A SUBSIDY AS BEING COMPETITIVE

The cost of aluminum in Reynolds plants is about 15 cents a pound. The cost of aluminum in Alcoa's plant is about 7 cents a pound. The difference is 8 cents a pound.

We have had a lot of very good statements here on cost of power. The total cost of power, if deducted, would still leave Reynolds short 6 cents a pound of being a competitive industry. The same thing applies to Olin. If we are to have a competitive industry, it must be a competition of costs, 7 cents for Alcoa in America, 5 cents for Alcan in Canada.

I don't believe that we can consider that any industry that needs a subsidy can be a competitive industry.

Going further in the facts, I think the committee has reported the price of alumina at Mobile at about $25 a ton. I know that before the war it was between $17.50 and $18 a ton. At Hurricane Creek it is about $32 a ton.

WORLD'S SUPPLY OF BAUXITE IS APPARENT

Now, then, there is an adequate supply of bauxite all over the world, and let me say that the greatest deposit of bauxite in the universe is on the moon, but that is not available under the present conditions to establish a competitive industry in America. For instance, the nearest bauxite to Portland, Oreg.—the Pacific coast—is in the Dutch East Indies. The freight—and I am taking this from your committee's report, page 6757—is $8.88 to Portland, and the duty is $1 a ton. That is $9.88, or we will say $10.

That bauxite is about on a par with the Arkansas bauxite. It is a very limited supply, and I have the official reports of the Netherlands East Indies Government on this bauxite up to 1941. The ore contained 52 percent Al_2O_3, so you would need 2.4 tons of that bauxite, and the freight a ton would be $24 on enough bauxite to make 1 ton of alumina. That is assuming that the Dutch East Indies gives us the bauxite, charges no export duty on it, which was a fight between the Dutch East Indies and the Japs, and loads it on our boats free of charge.

Now, to make the same alumina at Hurricane Creek, where the cost is 40 percent higher than it is for Alcoa, would amount to $12.20, and the freight to Portland would be $8, so that if the Dutch East Indies supplied the bauxite, we would still have to pay $3.80 more, and $15 more than Alcoa's cost at Mobile.

The price of the Dutch East Indies bauxite before the war was $6.50 a ton, and 2.4 tons would have cost $15.60. The total cost would be $19.40 in alumina, or that would be 2 cents extra cost for alumina per pound of aluminum metal from bauxite from the Dutch East Indies, and would be nearly 3½ cents more than Alcoa's cost.

Now, the reason, as I have said, is that we have plenty of bauxite all over the world, but the freight on bauxite is so high—our freight rates are the highest in history—that it does us no good in this country.

Many years ago they put a duty on alumina of $10 per ton. If we converted the Dutch East Indies bauxite into alumina, we would have only 40 percent of the cost of freight and we could have a competitive condition.

It is apparent from what I have said that the propositions before the committee do not contemplate the use of any foreign bauxite, that they contemplate using only the limited supply of bauxite in Arkansas.

It is our contention that if the limited natural resource that is left of the bauxite in Arkansas is left in Arkansas, it can run an aluminum industry there for many years; and as the gentleman preceding me said, they can build up a large number of manufacturers around that and have a continuing prosperity.

The first thing we have got to decide here is whether we are going to rob Arkansas of her natural resources and of her future prosperity to run a large industry for a limited period and then have a complete flop.

ARKANSAS PRODUCED BAUXITE "FASTER THAN ALCOA EXPECTED"

The first statement made by Alcoa, so far as I know, as to the disposal of these plants, was made at the Mining and Metallurgical Engineers' convention in Chicago in October, 2 years ago. The first conclusion was this: They foresaw nothing which would increase the use of aluminum after the war beyond what it was prior to the war. Second, that there would be no use for the Government plants, and that they should be scrapped. Third, that they would have to lay off from 80,000 to 90,000 men after the war. That is the first proposition that Alcoa made.

Now, the people of Arkansas were patriotic, and they went after the job and produced bauxite down there so much faster than Alcoa expected that before they knew it they had created a stock pile of 3,000,000 tons, which is substantially available at the present time. Then, they were shut off completely about a year ago and their contracts canceled. This kitty of bauxite has prevented Alcoa from going through with its proposition to scrap the aluminum plants. They can't scrap those plants with this bauxite on hand, so this is only a plan to use up this temporary supply of bauxite, and then we will have a lot of obsolete plants on our hands.

In my prepared statement I have likened Arkansas to a widow with insurance, and it is quite apparent that a lot of sons and daughters of Arkansas are being feted and complimented and encouraged to talk for Alcoa. Alcoa is making love to that widow, and so is Reynolds. When her bauxite is gone, I think she will be obsolete.

I am leaving my statement to be filed, and I am confining my remarks to a few points. The duty on alumina of $10 a ton cannot be justified by labor, because the cost of labor in making the alumina before the war was around 80 cents per ton—$10 as against 80 cents.

The duty on alumina was put on many years ago to protect the Aluminum Co., but I do not believe this committee or the people of America believe that Alcoa needs that protection today.

My next point is this: I have talked to Europe twice this week. I am informed that there are between 300,000 and 500,000 tons of alumina ready to be shipped from France, Yugoslavia, Austria, and Hungary, and that they would be glad to furnish us alumina. Their market in Germany has been cut off, and they would be glad to trade with us and would prefer to sell us goods in trade than they would to be objects of charity or go in our debt. That alumina can be brought into this country, and it can furnish alumina to that plant in Los Angeles and can furnish it to the west coast plants, and we can then have a competitive industry.

We are talking about an industry that can produce aluminum at 7 cents, not at the fictitious ceiling price that was put on by OPA based upon no question of cost.

Now, the next thing is this. We have three large rolling mills, one at Spokane, one at Chicago, and one at Newark, Ohio. Each of these mills can produce 150,000 tons, or more, of aluminum per year. If they operate at capacity, it would cost $60,000,000 to operate. If they operate at half capacity, it will cost $42,000,000 to operate. If they operate at one-fourth capacity, it will cost $34,000,000 to operate.

In other words, if we go to a 25-percent capacity year, the cost of fabricated aluminum to the public will be more than doubled. Those plants have got to be operated at or near capacity, in order to be of any value to the Government.

I don't know how to express myself as to the kind of propositions I have heard before this committee. I have heard it said here that these are the most efficient plants in the aluminum industry, representing $700,000,000, and the people come in here and say, "If you will guarantee us against loss and if you will give us orders so we can run the plants, we will take them on lease."

I have never heard of anything so ridiculous in my life. If you will take the duty off bauxite—let me bring out a very important point here. This duty on alumina of $10 a ton is not a revenue measure for the United States Government. I have looked through the Bureau of Mines reports for 20 years, and I cannot find that there has ever been any alumina shipped into America in 20 years. There has not been one dollar of revenue gotten out of this duty on alumina. It is merely the protection that has prevented there being anything but a monopoly in this business. The duty can be removed without loss of revenue.

In order for these plants to operate at maximum capacity, there must be alumina plants and there must be alumina reduction plants, and it would take all of them. I have heard it said here that the plant at Burlington, N. J., would have to be scrapped. I can tell you that if we get alumina from France and don't have to pay duty on it, that plant can operate. We can operate it because we have got the Big Inch pipe line, and we have the oil refineries there, and we can produce power in the day by oil and get off power at night, and then can operate that plant. That plant cost over $20,000,000. Are we going to scrap that plant, simply to keep a barrier to protect monopoly, or are we going to take that monopoly away?

In conclusion, let me say that there are several things that are uncertain. I have covered other things in my report, and I hope the committee will see fit to read it. I don't want to prolong this, although I would like to go into it very much further.

(Mr. Cary's report follows the conclusion of his testimony.)

The freight rates are uncertain. They were made during the war. We never saw a freight rate of less than 4 mills per ton-mile, and that is the freight rate from Arkansas to the Pacific Northwest.

In order for us to do business, we have got to have certainty. We cannot put up $30,000,000, which we are prepared to do to buy these plants, on any uncertainty. We are ready to buy these plants the minute you will take the duty off bauxite. We are willing to pay you the reasonable value of those plants. We will show our stability through our bank in Wilmington, and the stability of the people behind us. We are not going to disclose who the people are behind us, because they are users of aluminum, and they are dependent upon Alcoa to furnish them at the present time, and we don't want them discriminated against in case we do not make this deal.

There isn't any question but what we can take the whole $700,000,000 and put them into operation.

The Hybinette Laboratory has been in operation continuously, from father to son, for 700 years, and I don't believe that we have failed yet. We produced a process used in Canada and Russia that reduced the cost of making nickel from $15 per pound to 22 cents. We produced the nickel-chromium alloys that made it possible to crack gasoline. We produced those alloys that were necessary for producing synthetic rubber and many chemicals. I could go on for an hour and tell you of the outstanding things that this laboratory has done.

We have an organization that is capable of offering better technical knowledge in this business than has been used in the past. We will make improvements in this business, and Alcoa will make improvements. It is a well-known fact that old industries do not improve unless they have competition. We will show them how.

I thank you, Mr. Chairman.

Senator MURRAY. We thank you for your statement, and you may be assured it will receive careful study.

Coming at the end of the meeting, I am sure others may wish to comment on it, and they will be given the right—anyone who desires—to submit any statement or analysis on it.

Senator REVERCOMB. I want to make an inquiry. You have indicated here that you, on behalf of some persons whom you feel should not be disclosed, would like to buy some of these plants. Have you discussed this with the Government selling agency at all?

Mr. CARY. I presented a proposition to Mr. Symington 3 weeks ago today and told him that these prerequisites, the uncertainty of freight rates, the uncertainty of electric power and the duty of alumina would have to be settled before we were willing to bring our money down here and put it on the barrel head.

Senator REVERCOMB. In other words, you would not make a firm offer until those three conditions had been met?

Mr. CARY. Nobody can. You have got to know what you are doing. I do not think I would last long in my business if somebody put up $30,000,000 and didn't make good.

I was technical director of the Le Tourneau Co., the builder of the big earth-moving machines, and we always made it a point that every side of a proposition be discussed and determined before we put our money out. That is the reason that that company started in the depression and made money all through the depression and has made over $45,000,000 profit up to the present time.

I would like to say just one word on the question of markets. I spoke about this heat-treat patent, and if the committee desires, I will explain that.

Senator MURRAY. Is that discussed in your prepared statement?

Mr. CARY. No, it is not; it is only referred to.

Here are the same alloys [indicating]. One is heat-treated and one is simple annealed. This one [indicating] has a tensile strength of 62,000 pounds per square inch. After it was pulled we were able to bend it that way without any break.

This is the strongest aluminum alloy [indicating] ever made, and it is 25 percent stronger than any alloy that Alcoa has. This is the same alloy after it was heated treated, and this one pulled at 101,000 pounds per square inch. This alloy in the annealed condition is one and one-half times as strong as mild steel and only weighs a third as much. This [indicating] is two and one-half times as strong as mild steel.

We have one large earth-moving concern that wants 25,000 tons of our metal. I can't talk pounds—that is something that was brought into the picture during the war. We have a shipbuilding concern that wants 40,000 tons a year.

Cement is delivered to New York in containers that weigh 4,400 pounds and carry 5 tons. We have an order on our books, and have had for 8 months, for $12,000,000 worth of this alloy, because we could reduce the weight of those containers from 4,400 pounds to 700 pounds.

Two of the largest railroad car builders in America say they can use 140,000 tons.

Now, let me say one more thing. We can't make sheets in Spokane and ship them east, as the gentleman from Los Angeles mentioned, and, therefore, we have got to have the mill in Chicago. But for more than 30 years all the cans for canning sardines and fish in Norway were made out of aluminum, and I noticed the other day in the paper that the catch in one place only was about 9,000 tons of sardines a day. We have made an estimate, and it would show a demand for 300,000 tons—that is more than they can make in aluminum out in the Northwest now—of aluminum for cans.

Let me say also to you that those cans will give you fish in better condition than you can get out of a tin can, and that is the reason Norway went to aluminum cans.

Let me say that there is no reason under the sun for throwing away, or taking any chance of throwing away, $700,000,000 worth of aluminum plants in this country that are high-class plants.

I thank you again.

(The prepared statement submitted by Mr. Cary is as follows:)

ADDITIONAL STATEMENT OF FRANCIS C. CARY, METALLURGIST, WILMINGTON, DEL., RE DISPOSAL PLANS FOR ALUMINUM PLANTS, OCTOBER 19, 1945

I appreciate the honor of being invited here to give my views on this subject. I further want to commend Congress for the thorough job it has done in developing most of the facts. It will be assumed that the committee is familiar with the able interim report produced by Senator Murray.

The object is to dispose of the Government plants and create an integrated competitive aluminum industry. It must be directed toward establishing a perma-

nent industry and a permanent disposal. Such disposal must promote the greatest benefit to the greatest number of people. It must promote the largest employment possible. A wise plan can create prosperity, a short-sighted plan would be disastrous. Disposition is an immediate necessity to get these plants into operation. A long-range plan must be pursued to have continuing prosperity and employment.

The prerequisites to either a lease or sale are:

1. Bauxite or alumina.
2. Power.
3. Transportation, both ocean and rail transport.

BAUXITE AND ALUMINA

Arkansas has a limited supply of bauxite, it also has the Jones Mills aluminum plant, and it has natural gas. Bauxite and natural gas are its two most important natural resources. Although the bauxite is low grade, with the equipment at Hurricane Creek, and with improvements we can make in the process and the saving in freight, it can compete with foreign ores. Natural gas is plentiful and should be cheap enough for power. Arkansas has a favorable location. If the natural resources of Arkansas are conserved and used over a period of years these plants can be operated many years and will be a permanent supply of aluminum in Arkansas. A permanent supply of aluminum will build a host of industries in Arkansas to fabricate and make consumers products and will establish a balanced economy between agriculture and industry. It will provide opportunity for the progresive young men coming out of the schools and universities. It will establish a permanent prosperity based upon its own natural resources.

The first question to be decided is whether or not we are going to rob Arkansas of its natural resources and its future prosperity by a flash-in-the-pan operation in other plants and a quick profit for some operator or operators. Arkansas is like a widow with insurance money. If we take away her insurance and use those plants temporarily we will soon have consumed her insurance and have an obsolete widow to dispose of at which time the Government will have some obsolete plants worth only their dismantling value and Arkansas will be deprived of its heritage.

The people of Arkansas should not object to a temporary use of their natural resources to start up the other aluminum plants, but such temporary arrangement should be terminated as quickly as possible.

We have consulted with representatives of certain European countries who have provided alumina to Germany for making aluminum. They can furnish us bauxite or alumina. It takes about 2 tons of bauxidte to make 1 ton of alumina. There is no difficulty in ocean-shipping alumina. Alumina has been ocean-shipped to Norway for many years. For more than 2 years we have had several men in many countries investigating bauxite. Our transportation experts advise on the cost of delivering the bauxite. The calculations show that we cannot import bauxite from far distant lands and compete with the Guianas. Ocean freight is the highest in history. The distances are too great.

It costs about half as much per pound of aluminum to transport alumina, the oxide, as it does to transport bauxite. It also reduces the canal tolls about one half.

It has been recommended by the Murray committee that the duty of $1 per ton on bauxite be eliminated. The report is silent as to alumina. The duty on alumina has been $10 per ton. This duty cannot be justified as protecting labor because the direct labor in making alumina before the war was less than $1 per ton. It cannot be justified as protecting small industries because there were none. It effectively prevented the importation of alumina over the years. If the duty on alumina had been eliminated the Badin plant in North Carolina would have been an independent producer of aluminum. This duty has effectively protected monopoly from being challenged over the years.

The former hearings show that for every man employed in producing aluminum there were 50 men employed in fabricating, that for every man producing alumina there were 100 employed in fabricating the metal. By eliminating the alumina duty we can lower the price of aluminum and for every man lost in producing alumina we will create employment for 100 men in utilizing the metal.

We think it is time to take a realistic attitude towards Europe. France, Austria, Yugoslavia, and Hungary can furnish as alumina. They need our relief but they need employment, they need to produce and they can produce alumina for us and with profit both to their own economy and to our economy. They have lost their German market. They need this market and they profess to us that they would prefer to trade goods than to be objects of charity or become our debtors.

Alcoa, in its offer, has recommended a 50 percent reduction of the import duty on both alumina and bauxite. We recommend a 100 percent reduction. Undoubtedly, Alcoa wants to reduce the duty on alumina to feed its Messina plant from Shipshaw. It will be cheaper than shipping alumina from Mobile or East St. Louis. Messina is a comparatively small unit. Reduction of duty would have no effect on Alcoa's large units. At Messina Alcoa would deliever the alumina by boat. A $5 duty on alumina would still be too great a differential for alumina from far distant lands. Alcoa knows this. Our transportation experts are of like opinion but if this duty is taken off completely and cheap alumina is made available both on the Pacific and Atlantic coasts, it will greatly increase the value of our present aluminum plants.

We can get alumina quickly from Europe and thus protect the economy of Askansas. We can have cargoes going both ways. We can have trade with these nations, we can help their economy and help our own and we can regain the position of the American aluminum industry that it held a few years back. The increase of world production of aluminum was twice as great before the war as was the increase in America.

Many minerals are now duty-free. For example, manganese, from Cuba and the Philippines. Removal of this duty alone put more men out of employment than would be if all alumina was imported and in this case it did not increase employment in fabrication and utilization of the products. There was not the compensation that would result from removing the duty on alumina.

Alcoa states there is plenty of bauxite in the world. We agree with that. We have maps of many areas. We have tested the ores. We have found much of it in the British Empire. We have found it in Brazil. Under the law of Brazil it cannot be shipped as bauxite, but can be as alumina. We have found Alcoa, or its twin sister Alcan, controls many of the most available deposits. But there is more and we have developed a conveyor which will move it from inaccessible places. I will speak more about the conveyor later. But because of the cost of transport we cannot ship bauxite from these far-away places and compete. Nor can we pay $10 duty on alumina and compete.

Other important considerations will appear later in my statement.

If the Congress will eliminate the duty on both bauxite and alumina we will feel we have adequate protection as to the supply of this raw material.

POWER

Power must be considered for immediate use and for long-range development. It must also be considered the standpoint of the people's interest.

A large amount of power is immediately available at Bonneville and Grand Coulee, and Grand Coluee can install more generators for more power.

A dam at Z Canyon, north of Spokane, would cost sixteen millions and would produce 600,000 kilowatts of firm power. This dam was formerly owned by my late friend, Hugh Cooper. We contemplated a metallurgical operation there years ago but were prohibited by the then existing freight rates. This power could be produced for one-tenth mill and also as cheap as Shipshaw.

Our high-strength aluminum alloy and high-line construction now in the patent office makes it economical to transmit electrical energy 600 miles. Dr. Raver, of Bonneville, recently stated that it is now economical to transmit power 600 miles whereas before the war about 300 miles was the limit.

These plants can be equipped to operate on surplus power, run-of-the-river power, but we understand that Bonneville cannot make a rate for such power. That is prohibited by law.

The Government is committed to a stock pile of bauxite or aluminum. It should be aluminum as recommended by Secretary Ickes. The water should not be wasted over the dams. We should store the energy in the metal and never again have a Shipshaw deal. It will cost the Government the same for this stock pile if the Government gives Bonneville $25,000,000 and buys the stock pile at $25,000,000 less. The producer can make the metal for $25,000,000 less if Bonneville reduced its rate to one-half mill, but with this $25,000,000 Bonneville can construct Z canyon dam and replace its power at one-tenth mill. The information I have from the Federal Power Commission verifies this statement.

Thus Bonneville would gain on this transaction and the producer would then sell aluminum at 12½ cents which would be the lowest price ever in America. This rate is necessary for a competitive producer based upon present freight rates.

The Government has a loan of $28,000,000 on the Santee Cooper power owned by the State of South Carolina. A large bulk of this power was used for War Production which is not likely to continue. Here again industry is needed to balance agriculture. We employed many boys from South Carolina in the Le Tourneau plant built in Georgia and can speak very highly of them. With the duty removed on alumina, a plant can be moved to South Carolina to use its surplus power. The rate needed not be as low as Bonneville because of its proximity to eastern markets. Senator Johnston, when he was Governor of South Carolina, impressed upon me the importance of industry for the young men of his State. I promised that I would try to help solve that problem.

TVA may have sufficient surplus power but has shown no inclination to make a price which would permit competitive production.

The long-range policy must consider the dam proposed by President Truman to be built about 15 miles above Messina, N. Y. It will cost 275 millions, of which 240 millions will be charged off to navigation. It will produce 1.7 million kilowatts firm power now which will be increased to 2,000,000 kilowatts when the works above are completed to regulate the flow. Half of the power will belong to Canada for which there does not appear to be a market. This power should be as cheap as Shipshaw. This point has very great advantage for distribution to the major markets—Chicago, Detroit, Cleveland, and New England. It would also establish full value to the Government plant at Messina, which has heretofore been uneconomical; in fact, its power cost exceeded New York City by 30 percent and Spokane by 300 percent. This is by far the most advantageous point for relocation of some of the plants.

There are several oil refineries in the Philadelphia district, but our engineering studies are not complete on this subject. It refers to the plant at Burlington, N. J. The river is dredged so ocean ships can reach this plant and alumina can be delivered there. It is very close to big markets. The cost of freight by rail or trucks, to these markets would be low. Our studies indicate that if Diesel-engine power were installed for the day load and surplus power purchased for the night load this plant can be economically operated. It is our opinion that both the Los Angeles and Riverside plants should be removed to Bonneville and this would make available the Diesel plant at Riverside for Burlington, N. J.

It was stated that there was 50,000 kilowatt-hours going to waste in Nebraska. It should surely be advantageous to divide up these plants to use waste power. I am also convinced that it is to the public good to balance agriculture with industry. Industry seems to grow from a seed. An engineering study is projected to determine the economics of this location. These are natural resources which should benefit the people.

It is believed that congressional action is needed only in the case of Bonneville.

TRANSPORTATION

The new operator must have ships. The ships must be able to transport the materials and products as cheaply as Alcoa and we are not unmindful of the fact that the Maritime Commission has granted subsidies to Alcoa. The Government has surplus ships. Such ships should be sold to the operator as part of the facilities and at such price as to equalize his shipping cost with Alcoa. This may mean some alteration and construction.

When alumina and power are available, there will be no delay on the part of our engineers. Our laboratory has been in the Pussey & Jones Shipyard for 25 years, builders of ships for 100 years. If the basis of purchases is equality of shipping cost we will provide our analysis on all boats offered.

Alumina, Hurricane Creek to Pacific Northwest

There are three rates, $16.60, $12, and $8 per ton. The latter rate is based upon 1,800 tons in one shipment. This rate was established during the emergency. Also the Government has certain rights with reference to rates over railroads which received land grants. Our transportation experts state they are unable to state whether or not this rate will be maintained. If the rate is doubled it would mean a loss of $8,000,000 per year which would have a decided

effect upon the value of the plants and their location. The uncertainty should be eliminated.

What I have said as to alumina above applies to products of the plants. There should be no question as to freight rates when the war emergency is over.

Short-haul rates are not justified. For example, the rate of alumina from Hurricane Creek to Jones Mill is $3.20 per ton for 26 miles as against above rate of $8 for 40 times as far. The short-haul rates on bauxite are as bad. The rate on pig from Tacoma to Spokane is $6.30 whereas to Wilmington, Del., it is $16. We have developed equipment which will move these bulk materials at one-fourth cent per ton-mile and automatically load and unload same. Instead of moving a plant like Jones Mills 26 mile sto Hurricane Creek or the Spokane plants to tide water, it would be cheaper for the Government to install such conveyors unless the rates are reduced.

The light-weight alumina car has been proven. With our stronger alloys where strength is required and with plate from scrap these cars can be built cheaply. They would deliver 30 percent more tonnage for the same train weight. They would have 40 percent less return load. The Government could well afford to build these cars to reduce the freight rate between its plants. The same cars can be used to transport pig east. They should be included with the disposal of the plants.

If the Missouri Valley project proceeds they would provide low-cost freight handling of cement for the dams.

Canal tolls has been referred to by Senator Murray. They should be reduced as low as possible. From the above statement it is apparent that with the conveyor mentioned it would be possible to unload boats on one side of Panama and load on the other side and beat the canal tolls by better than 80 percent on bulk material.

In conclusion on shipping costs:

1. The sale must include ships on a basis of equality, in shipping cost with Alcoa.
2. The Interstate Commerce Commission must determine that the basic freight rates will not be increased greater than justified by increased labor cost.
3. That conveyors be installed to feed, and between plants, which will eliminate excess local costs.

PATENTS

After World War I a law was passed extending patents because the war effort had deprived patentees of the use of their patents. We have been deprived of the use of many patents for 5 years because of the war.

Legislation should again restore to patentees the right to use their patents for the time they have been deprived of their use by the war regulations.

SECURITIES AND EXCHANGE COMMISSION

Our attorneys feel that it is unsafe to organize a corporation of the magnitude required for this job without the approval of the Securities and Exchange Commission even though all of the stockholders can be incorporators. The summary closing of these plants had created an emergency requiring prompt action to again put them into operation. I am sure a suggestion from this committee to the Commission would be sufficient to get prompt action.

OUR PLAN

We propose to reduce the price af aluminum to 12½ cents base and reduce the price of magnesium.

All metals are competitive. This will help reduce the danger of inflation in all metals.

We propose to furnish not only the present alloys but to furnish "Nicral," our alloy which was popular with many manufacturers before the war. WPB prohibited its manufacture during the war.

We propose to furnish our new high-strength alloy "Hybloy" which exceeds all other known alloys in strength and workability and corrosion resistance.

We propose to furnish high-strength cable for electrical transmission with a weight strength conductivity factor fully three times that heretofore available.

We propose to purchase the Government scrap and make it into plate and other products to be sold at a lower price. We have inquiries for many thousands of

tons of such plate for earth-moving equipment, railway equipment, superstructures of ships, and other uses.

This industry has lagged badly in technical progress. Plastics and other material have far outdistanced it in development. It needs new life, new ideas, new developments; it needs to progress to catch up with others. We believe we can supply the creation force necessary.

We propose to produce magnesium, pig, sheet, bars, rods, and shapes.

Our marketing experts say confidently that this plan will create demand for aluminum and magnesium at least equal to that during the war and with like effect on employment.

The old American way of starting with a shoestring and making a fortune cannot be applied. It is not our belief that this plan can product profit the first year or two, the increased costs of establishing so large an industry, of creating many new outlets (Alcoa owns or controls many of the existing outlets), of helping new fabricators get established, the magnitude of the job, the creations of sales organization, the establishment of warehousemen, building an engineering organization and enlarging our research facilities, to be done on such fast schedule will entail losses and expenses. We cannot disregard expense as was done in the war. But we will build a permanent industry. We will build a sound foundation. We will build for the future. Eventually we will make good returns for our investors. We will contribute to a continuing prosperity.

On the other hand we could lease the plant that can be operated. We could use the Government windfall of bauxite, we could produce aluminum pig for the Government. We could well assume the monopoly price umbrella would remain because it would be too costly to the monopoly to reduce the price for a production with such known limitation. The Government would stand the depreciation and obsolescence of the plants and interest on the plant investment. We would need no sales organization, no engineering, no research expense. On this basis, according to the figures given, the Murray committee we could have a cost under 9 cents and a price of 14 cents and make $100 per ton without risk. The bauxite would make 750,000 tons of metal. Such a deal could return the operator $75,000,000—and leave the Government holding the bag with obsolete plants. It would create a more serious emergency a few years later.

Yet, those who propose such a plan seek a Government guaranty against loss.

We find no law that permits the Government to make such guaranty nor to give any subsidy.

The plants cannot be disposed of piecemeal.

The Spokane mill, the Chicago mill, and the Newark, Ohio, mill, each can produce 1,500,000 tons annually at capacity at $60,000,000 cost. At 50 percent of capacity, the cost would be about $42,000,000 annually and at 25 percent, the cost would be about $34,000,000. This is because many costs such as taxes, interest, depreciation supervision, and overhead do not reduce and power does not reduce in proportion to output. These plants are capable of very low cost if operated at capacity. But at reduced capacity they soon approach an uneconomical operation and at further reduced capacity they could cause a great loss to the operator. Anything less than near capacity would mean intermittent operation and very detrimental to labor. They cannot be slowed down because the metal would cool.

The freight rate from Spokane to Eastern points on pig aluminum is $16, and on finished sheet $36.50. The latter would require crating. Thus it would cost about $40 more per ton to ship finished sheet from Spokane than Chicago. Because of these freight differentials, finished sheet for the Pacific States and the Orient should be rolled at Spokane and for Eastern markets, at Chicago. For an integrated operation, the Newark, Ohio, rod and bar mill would need be included. What was said of the costs for the sheet mills also apply equally to this mill. You need capacity operation.

Also for integrated operation an extrusion plant is needed both in the East and the West. The Cressona plant should be restored and the Phoenix plant moved to the Pacific Northwest.

These plants cannot be subdivided, they cannot be shrunk, and they are big. These plants would need 500,000 tons of metal production to operate them without providing pig for other purchasers. And on plate and heavy construction, they could use 700,000 tons per year.

To supply these plants requires the production of all of the aluminum-reduction plants.

To deprive these plants of capacity operation would depreciate their value and greatly increase production cost and prevent creation of an industry capable of competing with the present monopoly.

In conclusion, we as well as anyone else would like to start with a small integrated efficient unit. We would rather grow large. The size and location of plants makes it impossible to assemble or construct such desirable unit. We have studied and tried for many months to do this. It cannot be done. And we will say it has taken many months to raise our vision and give us courage sufficient to come forth with our proposition for this huge job. We have had to enlarge the technical organization to handle the job. We have had to hire and loan men to other industries on a temporary basis so as to be ready to operate these plants. We are prepared for the "go" sign.

OUR PROPOSAL

Our proposal is based upon two propositions:

1. That we can operate the plants in competition.
2. That we can afford to pay the reasonable value of the facilities.

It does not take much intelligence to appraise the value of a fair deal to the public in the aluminum industry at this time nor to estimate the results of it to a new producer.

Provided the raw materials, power, and transport are made available as described and patents extended, and freight rates maintained, and thereafter if the situation as to such is permitted to change to make the plants not economic we can cancel and be protected against loss then.

In general we are willing to pay the reasonable value of these plants and materials on hand based upon normal prewar cost and proper deductions as outlined in my letter of December 27, 1945, to Mr. W. S. Symington. The price to be fixed by a fair appraisal with both seller and buyer equally represented.

We offer to pay $5,000,000 down and the balance over a period of 50 years with interest at 2 percent per annum. We will pay interest only on plants after they are ready to operate. After 5 years we will apply one-third of our net income to interest and debt retirement. We are to have the privilege to prepay and stop interest. We can prepay on any unit or part. When any unit or part or the whole is paid we are entitled to good merchantable title.

We will operate with private capital and at private risk.

All plants are now closed down, some are partly dismantled, some are located where they cannot be operated economically. Many other conditions exist. On the question of reopening plants permit me to call attention of the committee to the last Shipshaw contract which required taking of 110,000,000 pounds of metal as penalty for cancellation. On a basis of cost at Shipshaw this meant a $10,000,000 profit to the Canadian company and loss to the American people.

I am informed the Canadian company pays no taxes in Canada. It pays none to America. In our dealings there should be no prejudice against citizens here who pay taxes.

A new operator cannot assume such losses, whether on lease or sale. He cannot assume the losses due to bad location. If the Government leases the plants it will have to put them in operative condition. It will have to make adjustments to offset costs due to location until such costs can be removed.

The least the Government will realize out of these plants will be to lease them on short-term leases and delay the disposal until the bauxite is consumed and the plants are older.

If the plants are junked at this time we believe the Government would receive more than through leasing.

Our engineering studies are sufficient that, when the problems necessary for a permanent industry are solved, we can determine in short order what should be done with all the plants and equipment. In many places the buildings can be sold for more than their dismantling value and new structures erected at the new site. We would prefer that such new structures be of much cheaper design because we have to pay for them. We can then offer a contract covering the many details and verify them by up-to-date inspection. What our engineers recommend should be followed so long as it does not increase the cost to the Government over what the Government engineers propose.

These details need not interfere with immediate possession and operation or the plants immediately operative, but a method of solving all matters must first be agreed upon.

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In Norway sardines and fish have been packed in aluminum cans for years with many advantages. The west-coast canning industry should in time consume a large tonnage of the Spokane mill. I would enjoy reviewing the new markets we have assurance of as referred to in my former statement to the Murray committee. Price and quality will produce continuing success.

The immediate capacity of the new producer would be about one-third that of Alcoa in pig production. Alcoa will at least meet the competition price. It has never in the history made so low a price, although Germany sold the metal for less before the cartel. Our marketing experts predict that Alcoa will have a surprise with greater volume of business and will also make more money by bigger volume and lower price, that it will expand its production while we are moving facilities and arranging for increased production. But from the standpoint of utilization the new operator will have no capacity, whereas Alcoa owns or controls the present major outlets. We have got to establish new outlets and promote many new fabricators.

Respectfully,

FRANCIS C. CAREY.

Senator MURRAY. This is the last witness at this hearing. If anyone wishes to present an analysis of the statement just made by the witness, either his prepared statement or his oral statement, they may do so at some future time.

This concludes the testimony, and the hearings are adjourned, subject to the call of the Chair. The record is open for any statements to be filed in answer to this statement.

(Whereupon, at 12:05 p. m., the hearing was adjourned.)

(By direction of the chairman, the following letters are inserted at this place in the record:)

TENNESSEE VALLEY AUTHORITY,
Knoxville, Tenn., November 1, 1945.

Re Hearing on aluminum reports of Surplus Property Administration and the Attorney General.

Hon. JOSEPH C. O'MAHONEY,
Chairman, Subcommittee on Surplus Property Disposal,
Committee on Military Affairs,
Senate Office Building, Washington, D. C.

DEAR SENATOR O'MAHONEY: At the conclusion, on October 19, 1945, of the joint hearing of your subcommittee, the Special Committee to Study and Survey Problems on Small Business Enterprises, and the Industrial Reorganization Subcommittee of the Special Committee on Postwar Economic Policy and Planning, Senator Murray, who presided on that day, invited comments concerning the testimony of Mr. Francis C. Carey and stated that the record would be open for that purpose. The purpose of this letter is to respond in a general way to some of the implications of the testimony of Mr. Carey and other participants in the hearing. Primarily, however, we wish to answer specific inquiries which you yourself made concerning TVA during the hearing, and which were not answered on the spot because our representatives happened not to be present at the times the questions were asked.

I think your questions about TVA were largely anticipated by my letter to Senator Stewart of October 9, 1945, relating to the interim report on the future of light metals, prepared by the Special Small Business Committee. I am accordingly enclosing a copy of that letter with the request that it, together with this letter, be incorporated in the record of the joint hearing.

Your first request for information concerning TVA was made at the afternoon session on October 16, after Mr. Goldschmidt, during the course of a more or less general discussion (reporter's transcript, vol. 2, pp. 185 and 186), had testified to the effect that Bonneville was not in a position to subsidize war-plant operations through special power rates, but was under legal compulsion to sell power on a commercial basis at rates sufficient to meet its obligations and recapture the Government's investment. A further discussion along this same line took place at the morning session on October 18 (reporter's transcript, vol. 4, pp. 567 et seq.), in which Mr. Goldschmidt verified a previous statement by Mr. Caskie (reporter's transcript, vol. 4, p. 558) that power is going to waste at Bonneville Dam, and indicated that Bonneville might be able to make nonfirm or secondary power available to the aluminum industry at rates lower than any it has thus far charged. At the start of the afternoon session on October 18 (reporter's transcript, vol. 4, p. 584) you referred to this discussion and again indicated that you would like a statement from us concerning the application to TVA of the points touched upon by Mr. Goldschmidt. I think the following, along with the enclosed copy of my letter to Senator Stewart, will furnish the information you were seeking on the two occasions mentioned:

1. TVA is not empowered by its act to supply power at below-cost figures for industrial or other private use, either as a subsidy for wartime production or as an aid or incentive to peacetime competition. On the contrary, our act declares that our power projects shall be "self-supporting and self-liquidating" and requires TVA to market its power at rates which will cover the full cost of generation and transmission and assist in liquidating the cost of the TVA multiple-purpose water-control projects. Further, the TVA Act directs that power be distributed primarily for the benefit of the people of the section as a whole, particularly the domestic and rural consumer, and that "sale to and use by industry shall be a secondary purpose, to be utilized principally to secure a sufficiently high load factor and revenue returns which will permit domestic and rural use at the lowest possible rates and in such manner as to encourage increased domestic and rural use."

2. There is no power going to waste at TVA dams and TVA has no capacity which will perforce remain idle if not utilized by the aluminum industry. TVA is now prepared to deliver to Alcoa or Reynolds or other aluminum producers in this area, at nondiscriminatory rates, such quantities of power as they may require. However, if that power is not sold to consumers in that class it will be sold to someone else. In this connection I think I should state frankly that as we see it our long-range power problem is going to be one of supply rather than markets.

3. TVA's present industrial rates, for both firm and secondary power, are the product of the policies and requirements of the TVA Act as generally outlined above, and may not be arbitrarily lowered. These rates are already as low as any rates available to industry east of the Rocky Mountains. While they are higher than Bonneville rates, it must be remembered that TVA's power costs, and therefore its power rates, are determined by the characteristics of the system of multiple-purpose water-control projects which Congress has directed be built for the development of the Tennessee River and its tributaries. As suggested by Mr. Goldschmidt, the Columbia River is a special type of water resource the characteristics of which are more favorable than those of the Tennessee from the standpoint of power production. The fact is that because of the differences in the two rivers power simply cannot be produced as cheaply on the Tennessee as on the Columbia. The power available in the Tennessee Valley, therefore, is not only higher priced but also higher cost power than that distributed from Bonneville.

4. During the discussion above referred to, and following which you requested information concerning TVA, Mr. Goldschmidt remarked (reporter's transcript, vol. 4, p. 567) that "in Bonneville and the TVA power is sold on these enormous aluminum contracts on a 20-year basis." This may be construed as suggesting that TVA has sold power to aluminum producers for a minimum term of 20 years, with a requirement that the contract demand be paid for over the full 20-year period whether used or not. This is incorrect, of course, since TVA has not sold any power to aluminum producers on a minimum 20-year basis. As a matter of fact most of the firm power sold by TVA to aluminum producers during the war (205,000 kilowatts out of a total of 257,000 kilowatts was supplied under contracts cancelable by the customer upon 1 year's notice without penalty by reason of such cancellation, and the producers have already canceled such contracts in the exercise of the right so provided.

In referring above to "secondary power" I have not used the term, as seems to have been done occasionally at the joint hearing, as synonymous with hydro power or capacity which will be wasted continuously or for extended periods unless purchased by the aluminum industry. As above stated, TVA has no power

which can be so classified. By secondary power we mean merely power which is interruptible at the option of the supplier during specified periods of the year because of water conditions normally prevailing during those periods. As explained in the enclosed letter to Senator Stewart, there are markets for this kind of power in our area and we have consistently sold it at prices ranging from 1.5 to 2.5 mills per kilowatt-hour. Any sale of such power below its demonstrated value would conflict with and defeat the purposes of the power-supply provisions of the TVA Act, which demand that such power be utilized to minimize the costs to be borne by the public agencies which are given a preferred right to purchase the primary output of the system.

To avoid any misunderstanding concerning its possible application to TVA I think I should also comment concerning Mr. Olds' testimony as presented on October 17 (reporter's transcript, vol. 3, pp. 287–289). Mr. Olds first made the point that certain Federal power projects in the Pacific Northwest could deliver power "at site" at a figure lower than the rate for transmitted power. He then suggested that since the Government-owned aluminum plants in the Pacific Northwest should properly have been located "at site" in the first instance, the fact that they were not actually so located might be disregarded for rate-making purposes, and that power might be supplied to them on an at-site or nontransmitted basis even though such supply would involve a substantial transmission investment. While Mr. Olds' remarks were specifically phrased in terms of the Pacific Northwest, I want to make certain that the members of the committees understand that at-site or nontransmitted rates are not available to any plant served by TVA, even though located immediately adjacent to a generating station.

The reason for this is that the power delivered to a particular TVA customer is supplied not from an individual project or projects but from an integrated system or pool in which individual projects are designed, operated, and maintained as parts of one over-all unit and source of supply. It cannot properly be said that all of the power delivered to a particular TVA customer has its origin at a particular dam, and the power delivered to any customer cannot be so segregated or identified. Because of the necessities of system design and operation, therefore, all power delivered from the TVA system involves the element of transmission cost. Whatever the situation in the Pacific Northwest might be, the delivery of TVA power to particular plants or industries, wherever located, without regard to that transmission cost, would mean a discriminatory subsidy in favor of those plants and industries. In recognition of the development of the TVA system to the point where the foregoing is true, the TVA Board some years ago discontinued the application of a small nontransmitted power discount which had previously been in effect.

In general our comments concerning the issues discussed at the hearing and concerning the testimony with reference to those issues may be summarized as follows: TVA has a congressional mandate to develop the resources of the Tennessee Valley region, and accordingly has a basic interest in the successful operation of productive enterprises which can utilize those resources, including electric power, on a sound basis, and provide industrial employment. TVA, however, must deal with all such enterprises in a nondiscriminatory manner and has no legal authority to encourage or assist such enterprises, or to maintain competition between those in the same class through the device of below-cost or below-value power rates. The policies established by Congress for TVA require that rate levels for power marketed by it be such as to cover all costs, and that rate schedules for the various kinds of service bear a proper relationship to one another and to the rate structure as a whole. These policies are not merely fundamentally sound—they embody the basic essentials for successful and satisfactory operation of Government power plants. If it is necessary as a matter of national policy to subsidize or offer incentive aids to aluminum producers in order to maintain competition, we think Congress should act openly and directly to that end through some agency which will be held directly responsible for the results of the subsidy—not by such indirect expedients as sales of electricity from Government plants at arbitrary below-cost or below-value figures.

Sincerely yours,

DAVID E. LILIENTHAL, *Chairman.*

TENNESSEE VALLEY AUTHORITY,
Knoxville, Tenn., October 9, 1945.

Hon. TOM STEWART,

Chairman, Surplus War Property Subcommittee,
Senate Office Building, Washington, D. C.

DEAR SENATOR STEWART: In accordance with your request, we have reviewed the interim report on the future of light metals, prepared by the Surplus War Property Subcommittee of the Special Senate Committee to study problems of American small business.

As one of the Federal agencies marketing power to producers of light metals, we feel that your committee will wish to give further consideration to the relationship between the national policies applicable to the light-metals industry and existing national policies applicable to the marketing of power produced at Federal Water-control projects.

The Tennessee Valley Authority Act establishes a definite congressional policy for the marketing of TVA power. The TVA is directed to market its power at rates which will be sufficient to cover the costs of power production and transmission and assist in the liquidation of the cost of the water-control projects. It is also directed by section 11 of the act to distribute power primarily "for the benefit of the people of the section as a whole and particularly the domestic and rural consumers to whom the power can economically be made available," and to make sales of power to industry "a secondary purpose, to be utilized principally to secure a sufficiently high-load factor and revenue returns which will permit domestic and rural use at the lowest possible rates and in such manner as to encourage increased domestic and rural use of electricity" (48 Stat. 64–65 (1933)). In marketing the power in accordance with the foregoing policies, the rate level must be such as to cover all costs, and rate schedules for the various types of services must bear a proper relationship to each other and to the rate structure as a whole.

In the interim report of your committee it is clear that special recognition is given to the importance to the public interest and to the national defense of the future of the light metals industry.

The suggestion is repeatedly made that these considerations should dictate the granting of special assistance to the light-metals industry, and especially to producers other than Alcoa. If the Congress should conclude as a matter of public policy that special assistance in some form or other should be given to the light-metals industry, we believe that this should be accomplished through direct means by an agency with direct responsibility for the results of the assistance rendered. We do not believe that it should be accomplished in whole or in part by placing upon the Federal power agencies the responsibility for giving special treatment to the light-metals industry in the marketing of their power, thereby upsetting the policies established by Congress for those agencies.

There are several specific points covered in the committee's interim report dealing with the supply of power to the light-metals industry, upon which we believe that our comments might be helpful. These are as follows:

1. In the next to the last paragraph on page 7 of the interim report, reference is made to the rates which should be charged by Federal power agencies for secondary power supplied to the light-metals industry. The statement is made that a rate of less than 1 mill per kilowatt-hour for such power would seem to be feasible in the Tennessee Valley.

Secondary power which is subject to interruption at the option of the supplier has only a few markets. Perhaps the most important of these from the standpoint of its ability to absorb the amount of secondary power available is provided by neighboring power systems which operate steam-generating plants. These plants can be shut down when secondary hydro power is available, thus saving the cost of the coal which would otherwise have been used in generating steam. The value of secondary power in this market is represented by the cost of the coal which is saved. In the Tennessee Valley this value ranges from a maximum of half a cent or more per kilowatt-hour for the least economical steam plants to between 1.5 and 2.5 mills per kilowatt-hour for the most economical ones. The TVA itself has a modern steam-generating station built during the war at Watts Bar, which has an incremental fuel cost of about 2 mills per kilowatt-hour.

The other potential purchasers of secondary power include producers of aluminum, phosphorus and its compounds, and other electrochemical and electrometallurgical industries. Secondary power has been sold to such purchasers by TVA at rates ranging from 2 to 2.5 mills per kilowatt-hour.

Under the policies laid down in the Tennessee Valley Authority Act, the function of sales of secondary power is to minimize the costs to be borne by public users of the primary output of the system. This policy would be defeated by sales of secondary power at prices lower than its fair market value. In our judgment, the price of less than 1 mill per kilowatt-hour suggested in your committee's report would be substantially below the value of secondary power in this region.

2. In the last paragraph on page 7 of the committee's interim report there is an implication that since TVA rates are higher than those of the Bonneville Power Administration, they should be reexamined with the prospect of probable reduction. TVA's rates have been established in accordance with the congressional policy set out in the Tennessee Valley Authority Act. Under those policies the TVA's power costs are determined by the nature and characteristics of the system of water-control projects required for the development of the Tennessee River and its tributaries, for the purposes set forth in the act. The power produced in the Tennessee Valley is sold to industry at rates which are as low as any east of the Rocky Mountains, but, because of the differences in the characteristics of the two rivers, power cannot be produced as cheaply on the Tennessee River as it can on the Columbia. In other words, the firm power available in the Tennessee Valley is not only higher priced power; it is also higher cost power than the firm power distributed by the Bonneville Power Administration.

Tennessee Valley Authority is deeply interested in successful operation of such manufacturing enterprises as make good use of the resources of the region, including the power resources, on a sound basis, and offer industrial employment. We believe that industry in the Tennessee Valley should stand on its own feet and that power should not be sold to it below cost. As compared with the Pacific Northwest, the Tennessee Valley has some natural advantages and some natural disadvantages. One of the latter is higher cost electric power. We do not believe that the Northwest should be deprived of its natural advantages in this respect in order to subsidize industry in the Tennessee Valley.

3. In the last paragraph on page 7 of the report reference is made to the alleged discrimination in rates charged by TVA to Reynolds and Alcoa. The facts with reference to the alleged discrimination are fully set forth in the record, and we believe that they demonstrate that the differences in contract terms between TVA's arrangements with Reynolds and those with Alcoa are both reasonable and fair and that no discrimination exists. The Federal Power Commission in an independent review reached the same conclusion (Hearings, p. 6469).

4. Recommendation (17) on page 19 of the report is twofold: (1) That the Surplus Property Board, with the aid of the Federal Power Commission, make a study of electric-power supply, costs, and rates; and (2) that the Surplus Property Board confer with Federal power agencies with a view to providing supplies of primary and secondary power at "such reasonable and nondiscriminatory rates as will promote the fullest possible economical use of Federal power in the interest of the industry, the national defense, and the public welfare."

It would seem that a study such as that proposed in the first part of this recommendation might be useful to Congress in formulating policies relative to the light-metals industry. It would also seem that the Surplus Property Board is a logical choice to make this investigation because of its interest in the disposition of plants constructed during the war.

The purpose of the second part of this recommendation is not entirely clear. In the case of the light-metals industry, there is, of course, a definite relationship between the disposition of the plants constructed by the Government and the disposition of the Government's power supply. Close cooperation between the Surplus Property Board and the Federal power agencies in all matters in which their interests are interrelated would, therefore, seem to be highly desirable. The proposed recommendation seems to go further than this, however. It appears to designate the Board as an agency of the light-metals industry to negotiate with Federal power agencies for supplies of power for the industry as a whole or perhaps even for individual members of the industry. The effect of this recommendation would be to make the Federal Government both the seller and the agent of the purchaser of the electric power used by the light-metals industry. TVA power is the property of the United States Government, and responsibility for its disposal in the Government's interest has been delegated to the TVA. We believe that the TVA should work out the terms of its disposal directly with the purchasers of the power. Any other procedure would be inconsistent with TVA's responsibility for maintaining a rate structure which will effectuate the policies established by the Congress in the TVA Act.

We have limited our detailed review and comments to those sections of the interim report of your committee dealing with the power phases of the problem, and we hope that our comments will be helpful to your committee. They should be considered as supplementing the testimony which we have already presented for the record.

Sincerely yours,

DAVID E. LILIENTHAL, *Chairman.*

ALUMINUM CO. OF AMERICA,
Washington, D. C., October 25, 1945.

Hon. JOSEPH C. O'MAHONEY,
Chairman, Subcommittee on Surplus Property Disposal of the Committee on Military Affairs,
Senate Office Building, Washington, D. C.

DEAR SENATOR O'MAHONEY: On Friday, October 19, testimony was presented by one Francis C. Cary before the joint hearing of the subcommittee on Surplus Property Disposal of the Committee on Military Affairs, the Special Committee to Study Small Business Enterprises, and the Industrial Reorganization Subcommittee of the Postwar Economic Policy and Planning Committee. Senator James E. Murray presided at this meeting in your absence, and, at the conclusion of Mr. Cary's testimony, stated that anyone might present an analysis of the statement made by the witness. The next day we advised Senator Murray by letter of our possible interest in so doing.

We do not care to make any comments upon Mr. Cary's prepared statement which appears between pages 729–749 of the minutes. Much of it is at variance with the testimony of other and better-informed witnesses. Primarily, it presents a point of view.

We do desire to place on record through the medium of this letter a denial of certain assertions of the witness (at p. 716 of the stenographic record) made in the self-proclaimed process of qualifying himself as an expert on aluminum. The statements to which we refer are as follows:

"One of the processes which was patented out of that laboratory (Hybinette & Cary) increases the strength of alloys 25 percent. Alcoa has charged 5 cents per opund in its price of sheets during the war for the use of this invention. The amount charged exceeds $50,000,000, and this is in excess of the amount paid by Alcoa to the Government for the rent of all plants."

"They (Alcoa) have not paid royalties, although they told the Defense Plant Corporation a year ago in April that they had sent us the first quarter of a million dollars for that quarter. We haven't received it yet."

The foregoing statements made by Mr. Cary are untrue from beginning to end. The process referred to is a specific heat treatment for aluminum alloys, covered by the so-called Hybinette patent, United States Patent Office No. 1858092. The patent was issued on May 10, 1932, and its merits have been thoroughly investigated by Alcoa. We have alternative heat-treating processes outside of the scope of the patent which produce alloys of equally high strength. If the operating practice disclosed by the Hybinette patent results in any saving in costs over the Alcoa processes, the difference is so slight that it would be difficult to determine.

Alcoa has never added anything to its price of aluminum sheet or any other product during the war as the result of the use or for the right to use this heat-treating process. In point of fact, Alcoa processed less than 100,000 pounds of

sheet by the Hybinette process, and this was done only for a short time and on an experimental basis in one of Alcoa's sheet mills. It was never used anywhere else by Alcoa. Alcoa undertook to obtain a wartime license under this patent for the stated purpose of putting Alcoa in a position to sublicense others without charging them any royalty. It was impossible to reach an agreement with Hybinette & Cary because of the excessive royalty demanded by Mr. Cary. Alcoa has offered to pay one-half a cent a pound royalty on the approximately 100,000 pounds of production processed under the teachings of the Hybinette patent. This offer has not been accepted. Consequently, it approaches the fantastic to assert, as did Mr. Cary before your subcommittee, that Alcoa had told the Defense Plant Corporation in April, 1944, that they had sent Hybinette & Cary $250,000 for that quarter.

Mr. Cary's statements about us, made in the guise of qualifying himself as an aluminum expert, are so extraneous to any matter before your committee that we do not feel warranted in laboring the matter beyond this general denial.

Very truly yours,

ALUMINUM CO. OF AMERICA,
By I. W. WILSON, *Vice President.*

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